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 December 11, 2024 meeting
French version supersedes this translation

TABLE OF CONTENTS

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 Foundation’s Board of Directors (the “Board”).
2. All persons involved in managing the Fund, including its trustees, the staff 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's financial assets and their management have a direct impact on the organization's ability to achieve its goals. The inclusion of a responsible investment approach complements the global and traditional investment risk management approach, aligning the organization's values with the positive impact it seeks to have on the Montreal community, while recognizing the importance of environmental, social and governance (ESG) factors.
5. The FGM, established 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 believes that its work should 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 recognizes that ESG issues present both risks and opportunities that need to be addressed in a practical way, by considering whether and how to invest differently. To this end, the FGM has updated its investment policy to incorporate its responsible investment beliefs and to clarify its environmental, social and governance ambitions, as well as its disclosure commitments.

The FGM recognizes that ESG issues can have a significant impact on portfolio risk-return ratios. The FGM intends to manage these issues more actively to preserve the value of its investments over the long term, thereby protecting the FGM’s ability to increase its contributions to the community.

Diversity, equity and inclusion are not only central to our values and mission, but we believe that they also generate better ideas and better investment results over the long term. Identifying, monitoring and integrating responsible investment criteria into the management of the FGM's portfolio will lead to new investment opportunities that contribute to our goals, while supporting efforts to address the most pressing global challenges.

2.2 Integration of ESG factors

We believe that managing environmental, social and governance issues requires the integration of ESG factors at all stages of the investment process and active stewardship. We will strive to stay current with and implement best practices.

We will encourage ESG integration to be applied across all asset classes including public equities, fixed income and private markets. We acknowledge that the degree of relevance, or materiality, varies, as does the current state of ESG integration by strategies and asset classes. We will also encourage portfolio managers to adopt best practices in ESG integration, as recommended by the Principles for Responsible Investment (PRI) initiative.

Provided that the investment objectives for risk and return are met, our goals for ESG integration are as follows:

- Integrate ESG criteria into the identification and selection of investments for the FGM 's entire portfolio by 2025.
- Establish a portfolio of investments with high quality portfolio managers in terms of ESG ratings.

2.3 Socially responsible investing

We recognize the opportunities of a transition to a low-carbon economy and the need to achieve the Sustainable Development Goals, while creating a more just and equitable world.

To maintain consistency with the projects that are at the heart of the FGM, we are committed to:

- Evaluate portfolio managers on their monitoring and active stewardship practices with respect to the companies in which we invest, with respect to any violations of the United Nations Global Compact on Human Rights and the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).
- Promote best practices among our portfolio managers and investee companies with respect to human and indigenous rights, reconciliation, justice, equity, diversity and inclusion in all its forms.
- Encourage the FGM and its asset managers to provide consistent disclosure on the integration or non-integration of ESG risks within the portfolio, thereby providing donors with new transparency that meets their expectations.

Exclude, in the selection of our active portfolio managers, any economic activity that is contrary to the FGM's values, including the arms and adult content sectors, thermal coal extraction, gambling and the production and distribution of tobacco products.

2.4 Impact investing (see Appendix D)

The impact investing market offers clients diverse and viable opportunities to advance social and environmental solutions through investments that also generate financial returns. Impact investing represents a new asset class, more akin to direct investments. Under certain conditions, including regulatory requirements, this type of investment could support the FGM's mission in impact sectors such as:

- Support for the emergence and development of local portfolio managers in this sector;

- Community economic development: investments in community initiatives such as affordable housing or Aboriginal or social entrepreneurship;
- Development or deployment of solutions that support the transition to a prosperous and resilient low-carbon economy;
- Supporting organizations with strong policies on justice, diversity, equity and inclusion, and whose products and services benefit specific population groups;
- Investment opportunities in support of the United Nations Sustainable Development Goals.

The FGM recognizes that impact investing is an emerging field, and that financial vehicles for such investments are currently scarce. To the extent that new opportunities for the FGM to consider this type of investment arise in the coming years, we will redirect a portion of our allocation to these strategies.

The FGM also recognizes that the performance criteria for impact investing may be different (e.g. social or environmental criteria) from those of the Fund and, as a result, have a suboptimal risk-return profile when only financial performance criteria are considered.

An Impact Investment Subcommittee (IISC) was established in 2024 with the primary objective of evaluating and recommending investment opportunities that generate financial returns while achieving a significant positive social and environmental impact. The IISC’s recommendations align with the mission and value of the FGM.

Reporting to and supporting the Investment Committee, the IISC is specifically tasked with exploring, analyzing, and monitoring impact investments made within the FGM Investment Fund or other investment vehicles, including collaborative projects and fund creation initiatives.

The FGM made its first impact investments in 2023 and 2024. Following these first investments, and over a five-year horizon, the FGM will evaluate the opportunity to invest additional amounts in this segment up to 8% of the FGM's assets. This approach will allow the FGM to assess its capacity to make and manage this type of investment, as well as to establish intermediate targets in terms of portfolio allocation and timing.

2.5 Investment Strategy, Implementation and Reporting

The FGM has delegated to the Investment Consultant (“Consultant”) and the Fund Manager (“Manager”) the implementation of the Fund's investment strategies and the implementation of the responsible investment approach as defined in this Policy.

In granting this discretion, the FGM expects the Consultant to:

- Evaluate and report on how each underlying portfolio manager integrates ESG factors into their investment process, and aim to ensure that they make progress in this area over time;
- Assess the risks and opportunities related to ESG issues when selecting portfolio managers and constructing portfolios;
- Assess climate change risks and opportunities within the portfolio and incorporate this knowledge when constructing portfolios or proposing investment scenarios;
- Report on its approach to climate change in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) on an annual basis; and

- Report on its approach to active stewardship, including voting and shareholder engagement activities of underlying portfolio managers, annually.

The FGM places a high priority on transparency and meaningful reporting and encourages best practices in this area, such as PRI transparency reporting or other disclosure measures. As such, it assesses how ESG and engagement factors are integrated into the portfolio managers' process and monitors this at least annually.

2.6 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.

The full distribution policy used in the development of the investment policy is presented in Appendix A.

2.7 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 the Consultant and the Manager.

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;
- Approving the Investment Consultant (“Consultant”);
- Approving the Fund Manager (“Manager”);
- 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 deviations 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, acceptable risk levels, the long-term allocation of the portfolio and responsible investment objectives;

- Recommending the Consultant 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 performance of the Consultant and the Manager;
- Approving the impact investment recommendations proposed by the IISC;
- Integrating, when possible, the impact considerations established by the IISC into the FGM’s overall investment decisions;
- 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 portfolio 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 according to the financial and non-financial performance criteria defined by the Investment Committee.

3.3 Role of the Impact Investment Subcommittee (IISC)

- Evaluating new impact investment opportunities aligned with the FGM’s objectives, based on suggestions from the Advisor and Impact portfolio managers;
- Establishing the FGM’s impact thesis, which will guide the selection of themes, sectors, and investment choices;
- Assessing the opportunity to create one or more philanthropic impact funds deployed in the Greater Montreal area and more broadly in Quebec, with the possibility of investing a limited percentage outside of Quebec;
- Evaluating the financial and non-financial risks associated with each opportunity;
- Formulating clear and reasoned recommendations to the Investment Committee regarding impact investments in the FIFGM and impact funds, where applicable;
- Presenting comparative analyses of different investment opportunities to the Investment Committee;
- Relying on expert reports, ensuring regular monitoring of impact investments and measure their financial and social performance;
- Preparing periodic reports on the IISC’s activities and the performance of impact investments for the Investment Committee and the Board of Directors;
- Working closely with the Investment Committee to integrate impact considerations into the FGM's overall investment decisions;
- Partnering with other FGM committees, such as the Philanthropic Development Committee and the Community Engagement Committee, to identify synergies between investment activities and the FGM’s philanthropic programs;
- Leveraging the expertise of external members to enrich discussions and make informed decisions.

3.4 Role of the Investment Consultant (“Consultant”)

The Consultant shall have the following responsibilities:

- Supporting the Investment Committee in the selection and monitoring of the Manager;

- Supporting the Investment Committee in the selection of portfolio managers based on predefined criteria, including ESG performance criteria during the selection process;
- Monitoring and evaluating the activities of portfolio managers, including their commitments and practices, as well as their progress in responsible investing;
- Presenting detailed reports to the Investment Committee, on a quarterly and annual basis, indicating the performance and positioning of the portfolio, based on financial and non-financial criteria defined by the Investment Committee, and assist the Committee in its efforts toward transparency and disclosure in responsible investing;
- Supporting the Board and the Investment Committee in the review process of the investment policy by proposing, among other things, different asset structures;
- Ensuring that portfolio managers comply with active ownership policies;
- Supporting the Investment Committee in establishing the FGM's annual distribution rate.

3.5 Role of the Fund Manager ("Manager")

The Manager shall have the following responsibilities:

- Managing cash flow and rebalancing the portfolio;
- Supervising operations;
- Ensuring the portfolio managers' compliance and adherence to their investment process;
- Conducting contractual reviews with portfolio managers;
- Negotiating management fees with portfolio managers;
- Preparing monthly asset reports;
- Providing any relevant information received from portfolio managers to the Advisor and the Investment Committee;
- Transitioning to new portfolio managers.

3.6 Role of the FGM's Portfolio Managers

The portfolio managers shall, in general terms, be the responsibility of the Manager and must, in particular:

- Managing assets in accordance with the provisions of their respective management mandates and applicable laws;
- Preparing reports as required in the service agreements with the Manager, including updates on returns and investment strategies;
- Diligently communicating any material changes to the firm's organizational structure or management teams, as well as any legal proceedings;
- Providing the Manager with a compliance report on the investment policy statement, as per the terms outlined in their management contract or mandate.

3.7 The Depository or Trustee

The responsibilities of the Depository or Trustee 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 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 illiquid 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 portfolio 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 portfolio manager's portfolio, by management strategies and by the actual portfolio managers themselves.

Finally, active management risk is controlled by a meticulous selection process in which the portfolio manager's integrity is shown to be beyond reproach and its management processes to be robust and aligned with best practices, as well as by a monitoring 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 equities and certain foreign alternative investments. 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 negative correlation generated by certain foreign currencies in bear markets.

At present, the strategic portfolio does not include any currency hedging.

4.4 Risks Related to Climate Change

The FGM recognizes the scientific consensus on global warming and the material, physical, and transitional risks associated with it, and acknowledges that these risks may influence the FGM's investments. To better manage these risks, we are committed to:

- Identifying and assessing climate change risks within the portfolio on a periodic basis, with the goal of managing risk and enhancing returns based on long-term risk. This includes implementing a climate transition plan to achieve our goal of net-zero carbon emissions by 2050 and our interim goal of reducing portfolio carbon emissions by 45% by 2030.
- Evaluating and monitoring portfolio managers annually on their strategies and practices for managing climate change risks and opportunities.
- Encouraging portfolio managers to adopt best practices as recommended by the Task Force on Climate-related Financial Disclosure (TCFD), and specifically encourage disclosure and transparency of climate plans and metrics (such as carbon footprints).
- Evolving our own governance, oversight, and periodic reporting on our climate transition plans and progress towards our net-zero carbon emissions goal.

4.5 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.

Other risks specifically related to impact investing include[1]:

- The risk of proof
- External risk
- The risk of stakeholder participation
- The risk of abandonment

- The risk of effectiveness
- Execution risk
- The risk of alignment
- The risk of endurance
- The risk of an unexpected impact

[1] *Impact Management Platform (IMP)*

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

5.1 Investment Objective

The primary investment objective is to generate the returns necessary for philanthropic distributions, while covering the expenses required to properly manage the Fund. In addition, returns are expected to partially maintain the purchasing power of capital.

Secondary objectives addressing social and environmental issues will be established to reflect the FGM's social responsibility and responsible investment beliefs.

We adhere to active stewardship and investment practices that are aligned with the United Nations Global Compact on Human Rights and the United Nations Declaration on the Rights of Indigenous Peoples throughout the World, with a particular focus on reconciliation and respect for the rights of First Peoples in Canada.

We believe that our investment objectives are also best met, and our mission truly achieved, if they are consistent with a goal of net-zero carbon emissions by 2050, consistent with the Paris Climate Accord.

To support the FGM in its responsible investment approach and, in particular, in its commitments to justice, diversity, equity, inclusion, and to combat climate change, non-financial performance criteria will be selected and regularly evaluated, and targets set in this regard.

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
Canadian bonds	6%	10%	12%	FTSE Canada Universe
Sustainable Bonds	6%	8%	10%	FTSE Canada Universe
Canadian Commercial Mortgages	2%	5%	7%	60% FTSE Canada Short term + 40% FTSE Canada Mid term + 0.5%
TOTAL FIXED INCOME	**20%**	**25%**	**30%**	
Canadian equities	5%	7%	9%	S&P/TSX Composite
U.S. equities	5%	6%	7%	MSCI USA ESG net
International equities	5%	6%	7%	MSCI EAFE ESG net
Global Equities	10%	12%	14%	MSCI World net
Global low volatility equities	8%	10%	12%	MSCI World Net
Global small cap equities	2,5%	4,5%	6,5%	MSCI World small cap net
Emerging market equities	2,5%	4,5%	6,5%	MSCI Emerging Markets Net
TOTAL EQUITIES	**45%**	**50%**	**55%**	
Senior private debt	0%	4%	6%	FTSE Canada 91-Day + 4%
Canadian real estate (direct)	0%	5%	7%	MSCI/REALPAC Canada Quarterly Property Fund Index
Direct infrastructure – core	0%	4%	6%	CPI + 4%
Direct infrastructure – Thematic / Transition	0%	4%	6%	CPI + 4%
Private Equity (Impact Investments)	0%	8%	10%	CPI + 4%
TOTAL ALTERNATIVES	**0%**	**25%**	**30%**	
TOTAL		**100%**		

* During the implementation period of the target allocation, the weight of certain asset classes may temporarily fall outside the lower and upper limits.

It is anticipated that investments in private markets (senior private debt, core and thematic/transition direct infrastructure and private equity) will be funded over time by capital calls. During the implementation period, the target allocation will be adjusted to reflect the actual allocation to each of these asset classes (the interim targets as well as permitted deviations for rebalancing during this period are presented in Appendix B).

5.3 Active Portfolio Managers' Performance Objectives

Certain portfolio 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.

The performance of active portfolio managers will be considered satisfactory if the annualized gross return over each consecutive four-year period exceeds the added value stated in the portfolio manager's investment policy (available in Appendix C). For senior private debt, infrastructure and private equity, 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.

Active portfolio managers will also be evaluated on their approach to responsible investing, including their engagement activities, based on their capabilities, and adherence to their voting principles.

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 shorter or longer periods. Therefore, active management must achieve higher returns to justify the active risk involved. However, should the Investment Committee elect to invest a part of its portfolio in a passively managed fund, the return of its portfolio managers will be deemed satisfactory if the difference compared to the appropriate index 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 Manager 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 Manager 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.

Rebalancing will exclude private market investments due to their limited liquidity, unless they can be traded at the time of rebalancing. Furthermore, these asset classes will be maintained at their target as promptly as possible, taking into account available liquidity windows through capital additions or withdrawals, or by ceasing the systematic reinvestment of distributions, if applicable. The lower and upper limits are those deemed reasonable by the Investment Committee to maintain the risk profile assumed by the Fund.

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;
- The Consultant;
- The Manager;
- The fiduciary trustee; and
- Staff members or agents retained by the above persons 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 – VOTING RIGHTS AND SHAREHOLDER ENGAGEMENT

We believe that the practice of active stewardship (primarily through monitoring the voting practices and shareholder engagement activities of portfolio managers) contributes to long-term risk-adjusted returns while fostering positive change in corporate and broader market practices on environmental, social and governance issues.

To the extent that our investments represent units of funds, the voting of securities held by the Fund is delegated to the Fund's portfolio managers who will carry out this responsibility in a manner consistent with the objectives of this Policy.

In doing so, the Manager will inform our portfolio managers of our responsible investment beliefs and policies. The Consultant will have periodic discussions with them to better understand how they are addressing issues of importance to the FGM.

We will monitor the portfolio managers' activities, including how they exercise their voting rights and engage with companies on ESG issues. However, portfolio managers will be required to notify the Investment Committee and the Manager whenever a vote is taken on an exceptional issue.

The FGM may establish a voting policy and communicate it to the Manager and portfolio managers. Where appropriate, the FGM and the Investment Committee will work with other institutional investors and networks to discuss ESG issues or to promote the evolution of best practices.

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 that 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 managers shall be deemed satisfactory if the gross annual return on investment exceeds expected objectives set out in their investment policy on an individual basis.

If the portfolio managers have not achieved a satisfactory return for a period of four consecutive years, the Investment Committee shall determine if the management of their mandate should be awarded to another investment management company.

The Consultant will also be evaluated on non-financial criteria, such as its ability to support the FGM in its responsible investment approach and the quality of their advisory services.

In addition to this analysis of investment performance, the Investment Committee must determine each year whether to reappoint the Manager and portfolio managers by reviewing, among other things, the analyses and recommendations of the Consultant.

APPENDIX A

Distribution Policy

of

The Foundation of Greater Montreal

Chapter 1 – Background

The primary objective of the Foundation of Greater Montreal (FGM) is to raise money for endowment funds, manage them wisely and distribute their revenue to support local charities. To this end, the FGM must ensure optimal and prudent management of its investments.

The FGM must also see to the distribution and use of its investment revenue according to a policy that is in keeping with both its goals and its legal and moral obligations.

Chapter 2 – Elements to be Considered

The elements that must be taken into account by the Distribution Policy are as follows:

INVESTMENT REVENUE

- The revenue generated by the investments includes interest, dividends and realized capital gains or losses net of management fees. Furthermore, available revenue is composed of investment revenue net of distributions and administration fees.
- The FGM expects the long-term average rate of return on its investments, net of its investment advisors' fees, to exceed the annual disbursements as specified under its distribution policy. Consequently, over the long term, the FGM expects the proceeds from its investments to exceed its disbursements.

OBLIGATION CONCERNING CAPITAL

- The FGM is required to comply with the agreements it has signed with the various donors. The agreements set out the conditions attached to gifts, including capital preservation.
- Most of the existing agreements specify that the capital is to be preserved in perpetuity. Some agreements specify that the capital is to be maintained for a minimum period of 10 years, while a few provide for gradual depletion of the capital over periods of 5, 10 or 20 years.
- The agreements provide for the possibility of deducting administration fees from the capital if the revenue generated is insufficient. Some agreements provide for the possibility of making temporary deductions from capital to comply with the disbursement quota requirement.
- The agreements do not include a clause to protect capital against inflation.

DISBURSEMENT QUOTA

To retain its status as a charity, the FGM must annually disburse amounts by way of gifts made to qualified donees, as specified under the Income Tax Act. The disbursement quota represents 3.5% of the prescribed amount of assets held by the FGM over the previous two years. It should be noted that the FGM is required to disburse a total of 3.5% of the prescribed amount, which does not mean that the FGM must disburse 3.5% to each individual fund holder. Indeed, the FGM does not distribute from funds that have not been in existence for at least 4 quarters nor from those that have not accumulated $10,000 as at December 31 of the preceding year.

Amounts distributed through philanthropic funds increase the amounts disbursed for the purposes of our disbursement quota.

MANAGEMENT AND ADMINISTRATION FEES

To carry on its operations, the FGM charges the funds monthly management and administration fees. These fees are used to defray investment management costs and to cover the FGM's operating costs.

Chapter 3 – Distribution Rate

The distribution rate is set every year by the Board of directors upon recommendation by the Investment Committee at a minimum of 3.5% of the average closing market value of the philanthropic fund for the 12 quarters ended December 31 of the previous year. The Investment Committee considers the annualized returns of the fund over 5 and 10-year periods, and ensures that the fund has sufficient income to cover the payout quota, fees and a portion of inflation. It assesses the impact of a 0.25% change in the distribution rate from year to year, using stochastic projections to ensure that capital is protected. For new funds established less than 12 quarters prior, the total amount of grants awarded in any given year is set at the rate determined by the Board of Directors, multiplied by the average closing market value of the philanthropic fund in all quarters since its establishment through December 31 of the previous year. To allocate grants from a new philanthropic fund, such a fund must have been established before December 31 of the previous year and must have been open for a minimum of four quarters.

Case of the funds created within the framework of the 2018-2021 Patronage of Culture program

In the case of the MPC 2018-2021 funds, the average closing market value of the fund is determined by adding the market value of the endowment-capital fund and the philanthropic-revenue fund. The settling organization may determine a distribution rate higher than the rate determined by the Board of Directors of the FGM, provided that following the distribution, a balance corresponding to a minimum of 6% of the value of the assets of the Capital Fund, as established on December 31 of the previous year, remains in the income fund. This percentage is kept in the fund to compensate for possible decreases in the value of the income fund.

Each year, the settling organization will be notified in writing of the amount available for distribution from its income fund. The organization will have 90 days following the sending of the notice to make a written recommendation to the FGM on the amount to be distributed. If no recommendation is received from the organization by the end of this period, the FGM will apply the distribution rate set by its Board of Directors.

Chapter 4 – Distribution of Capital and Other Special Clauses

For funds whose agreements provide for the gradual depletion of the capital over periods of 5, 10 or 20 years, the additional amount to be distributed, determined based on the rules set out in the agreement, shall be over and above the amount established in Chapter 3 above.

For funds containing special distribution clauses, the amount to be distributed shall be determined based on the stipulations in the agreements and shall be examined on a case-by- case basis.

Chapter 5 – Use of Investment Revenue

Investment revenue shall be used in the following order:

1. A sufficient amount shall be deducted to cover management and administration fees. If the total annual revenue is insufficient to cover these fees, the required amount shall be deducted from the capital of each fund.
2. An amount shall be distributed in the form of grants calculated according to the formula set out in Chapter 3 hereof.
   If the total amount of revenue generated during the year is insufficient to cover the amounts determined, the sums shall be taken first from the accumulated revenue available and then from the capital, provided this is allowed under the agreement.
3. Any excess amount shall be kept as available for distribution in future years.

Chapter 6 – Restrictions on Distribution

Funds established for less than five years must have received capital contributions totaling the minimum required amount of $10,000 before a distribution can be made.

Chapter 7 – Notice to Donors

Each year, donors will be advised of the amount available for distribution from their respective funds.

In the case of donor-advised funds, donors must send their recommendations to the FGM concerning the charity or charities to be given a grant no later than October 31 each year. Donors may also choose to designate an advisory committee to make recommendations on their behalf.

In the absence of recommendations from donors before November 1 each year, the amounts available will be distributed at the FGM's discretion. In selecting the charitable organizations, the FGM will base its choice on the types of organizations chosen by the donors in the past.

Chapter 8 – Effective Date and Review

This policy shall be effective January 1, 2020 as determined by the Board of Directors.

The Board of Directors will review this distribution policy at least once every three years.

APPENDIX B – REBALANCING POLICY FOR THE TRANSITION PERIOD

It is expected that investments in private markets (senior private debt, direct core and transition infrastructure, and private equity) will be gradually implemented based on the selection of portfolio managers and capital calls. During the transition period, assets will be temporarily allocated according to the interim target outlined below and will be gradually transferred to the reference portfolio presented in Chapter 5, as capital calls from portfolio managers are made.

Asset Class	Interim target	Permitted deviations	
Fixed Income	**30%**	**-7%**	**+7%**
Money market	2%	-2%	+2%
Canadian bonds	15%	-4%	+4%
Sustainable Bonds	5%	-2%	+2%
Canadian Commercial Mortgages	8%	-3%	+3%
Equities	**66%**	**-7%**	**+7%**
Canadian equities	7%	-2%	+2%
U.S. equities	9%	-2%	+2%
International equities	9%	-2%	+2%
Global Equities	18%	-4%	+4%
Global low volatility equities	14%	-3%	+3%
Global small cap equities	4,5%	-1,5%	+1,5%
Emerging market equities	4,5%	-1,5%	+1,5%
Alternatives	**4%**	**-4%**	**+4%**
Canadian real estate (direct)	4%	-4%	+4%
TOTAL	**100%**		

APPENDIX C

Investment Policies of the Portfolio managers' Pooled Funds

Foundation of Greater Montréal

APPENDIX D

THE FOUNDATION OF GREATER MONTRÉAL
IMPACT INVESTMENT POLICY

Latest amendments adopted by the Board of Directors
at its April 16, 2025 meeting
French version supersedes this translation

TABLE OF CONTENTS

1. FOREWORD

The present Impact Investment Policy (the "Policy") governs and supplements the parameters of the impact investment portion of the Foundation of Greater Montréal Investment Fund ("FGMIF**")** Investment Policy found in its Appendix D.

The Policy outlines the principles governing impact investing and discusses key elements, including investment philosophy, principles and asset allocation. The provisions reflect the Foundation of Greater Montréal ("FGM") Board of Directors' directives, as well as those of the Investment Committee and Impact Investment Subcommittee.

2. THE FOUNDATION OF GREATER MONTRÉAL - MISSION AND VISION

2.1 Mission

The Foundation of Greater Montréal is committed to serving and listening to its community. In collaboration with its partners, the FGM mobilizes philanthropic resources, disseminates knowledge, stimulates initiatives and supports the community in order to advance Sustainable Development Goals in Greater Montréal.

2.2 Vision

The Foundation of Greater Montréal aspires to promote a community free of poverty and discrimination, where everyone can reach their potential and live in a healthy environment, now and in the future.

We are convinced that we have everything we need to achieve this vision if we succeed in innovating to mobilize and better distribute the financial resources already present in Greater Montréal, and to put them at the service of intelligence, creativity and solutions that meet the needs of our community.

3. DEFINITIONS

3.1 Impact Investment

Impact investment refers to the act of investing with "the intention of generating measurable, positive social and environmental benefits alongside a financial return."[1]

[1] Global Impact Investing Network, 2024, https://thegiin.org/

The concept **of additionality**[2] is fundamental to the definition of impact investment.

> Additionality refers to the positive spinoffs generated specifically through an investment that would not otherwise be generated.[3] A manager is considered "additional" when their investment strategy fills a gap in the market. An additional investment provides a response to a demonstrated need that is otherwise unresolved.
>
> Investors achieve additionality "typically by taking specific financial and non-financial actions to contribute to improved social and environmental performance."[4] In all cases, the principle of additionality is an important component of the due diligence process.

The following four characteristics are central to impact investment: [5]

- **Intentionality**
  Impact investment is characterized by an intentional desire to contribute to measurable social or environmental benefits. Impact investors aim to solve problems and seize opportunities. This intention is at the heart of what differentiates impact investing from other investment approaches, which can also incorporate impact considerations.

- **Using evidence and impact data in investment design**
  Investments cannot be designed on hunches. Impact investing must be based on available evidence and data to design smart investments that can effectively contribute to social and environmental benefits.

- **Managing impact performance**
  Impact investing is based on a specific intention and requires that investments be managed according to that intention. This includes setting up feedback loops and reporting on performance to enable other actors in the investment chain to manage investments for impact.

- **Contributing to the growth of the sector**
  Investors employing credible impact investing practices use terms, conventions and indicators shared by the sector to describe their impact strategies, objectives and performance. They also share their learnings, where possible, to enable others to take advantage of their experience and understand what actually contributes to social and environmental benefits.

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[2] Some organizations refer to the principle of "additionality" as "contribution" (The Canadian Task Force on Impact Investing, Growing Impact Investing in Canada by Engaging Asset Owners, 2024)
[3] UNPRI, An introduction to responsible investment for asset owners, 2019
[4] The Canadian Task Force on Impact Investing, Growing Impact Investing in Canada by Engaging Asset Owners, 2024)
[5] Ibid (https://thegiin.org/publication/post/core-characteristics-of-impact-investing/) – free translation

Finally, the concept of **catalytic capital** is also an important element in the definition of impact investing.

> **Catalytic capital** implies that the investment is designed to trigger or accelerate positive change beyond the immediate financial transaction. Such an investment plays a crucial role in unlocking additional resources, encouraging other investors to participate and fostering the building of a market for impact investing.[6]

3.2 Social finance

In Québec and Canada, the term **social finance** is quite widespread and adds nuances to the notion of impact investment. "Social finance is an approach aimed at mobilizing private capital that generates a social dividend and economic return to achieve social and environmental goals. Mobilizing private capital for social good creates opportunities for both investors and communities alike — the former for financing projects that benefit society, while the latter can benefit from new sources of financing."[7] Generally, the terms social finance and impact investing are used in an analogous fashion.

3.3 Community investments

Community investments are largely inspired by advances in community economic development (CED) in Québec and community finance networks in the United States (community development financial institutions, or CDFIs).

Community investments refer to financial investments aimed at directly supporting the economic, social and environmental development of specific, often marginalized or low-income, communities. They are directed towards local initiatives, such as affordable housing, support for social economy enterprises, community infrastructures, or essential services like education and health.

These investments can take several forms across the different asset classes (debt, equity, real estate, etc.). Examples of community investments include community bonds, social impact bonds and microcredit. They prioritize tangible social and environmental returns, while offering a financial return and promoting the empowerment and resilience of beneficiary communities.

For the FGM, community investments are those that act in the territories of Greater Montréal and province of Québec, and that demonstrate strong territorial anchorage. In addition, community investments are aimed, first and foremost, at generating spinoffs directly related to the FGM's mission.

3.4 Impact manager

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[6] State of Blended Finance, Convergence, 2024

[7] Government of Canada (https://www.canada.ca/en/employment-social-development/programs/social-finance.html)

An **impact manager** is an intermediary specializing in the deployment of investment strategies on the financial markets, integrating financial returns with social and environmental impact objectives. They serve as key partners for the FGM, structuring, managing and optimizing portfolios aligned with its impact intentions.

Impact managers can be involved in all asset classes and include social finance intermediaries (SFIs) in Québec and Canada. The FGM recognizes that impact managers active in Canada and Québec are mainly focused on private markets for the time being, while remaining conscious of the fact that the supply across the different asset classes is increasingly large.

Impact managers can be separated into two broad categories: 1) institutional and 2) emerging.[8]

- **Institutional impact managers** typically have the following characteristics:
  - They have an established track record and several fund vintages.
  - They are managed by a team with in-depth knowledge, recognized experience and relevant expertise.
  - They have developed a clear, repeatable and proven investment approach.
  - They have credible investors, including pension funds, endowments, etc.
  - They have assets under management in excess of $1 billion.

- **Emerging impact managers** typically have the following characteristics:
  - They aim to create a new intermediary, financial instrument, investment proposal or field of intervention.
  - They have little or no established performance history.
  - They could be catalyzed by the participation of investors with a willingness to build the social finance market.
  - They have a strong potential to create value and respond to an unfilled market segment.

  Emerging impact managers are often in the early stages of their development, having been recently established or still building a track record of performance. Despite the challenges associated with their early stage of development, emerging impact managers play a crucial role in exploring new areas of impact, developing unconventional approaches to less mature sectors, and in contributing to the growth and diversification of social finance. Given their small size and limited track record, emerging impact managers are often overlooked by institutional investors.

3.5 Program and mission investments

Impact investments made by a Canadian foundation come in two types:
1) Program-related investments and 2) Mission-related investments.

[8] Section inspired by "Statement of Investment Policies and Procedures", McConnell Foundation, 2020

- **Program-related investments (PRIs)** are investments that contribute to the achievement and advancement of a foundation's mission. PRIs can generate a financial return but accept a below-market risk-adjusted return (dealer yield) and/or have a higher risk tolerance for the level of return generated. The primary purpose of PRIs is to further the charitable purposes of the Foundation and not to generate a profit.

  “A PRI is an activity that directly contributes to the charitable purposes of the investing organization. [...] A PRI is not an investment in the traditional financial sense. While PRIs can produce a financial return, they are not made for this reason.”[9]

  The vast majority of PRIs are considered to be emerging investments.

- **Mission-related investments (MRIs)** are investments that aim to achieve benefits that are consistent with a foundation's mission. MRIs have a return profile equivalent to market rates. They can be made through institutional intermediaries and through emerging intermediaries.

4. OBJECTIVES

4.1 Invest up to 8% of the FGMIF's total assets in impact investments.

4.2 Promote the creation and sustainability of new financial vehicles entirely dedicated to impact investing in Montréal and Québec.

4.3 Align endowment capital with the strategic objective of producing a positive social and environmental impact, a significant portion of which is in Greater Montréal.

4.4 Invest in impact managers who contribute to the Foundation's mission, with a particular focus on the themes of social equity, climate transition and social equity.

4.5 Contribute to building the social finance market and mobilize capital that would not otherwise be invested in financial instruments that generate positive impacts.

4.6 Play a catalytic role in contributing to the development and emergence of impact managers in Montréal.

[9] "Community Economic Development Activities and Charitable Registration," Guidelines, CG-014, Canada Revenue Agency, 2012 (revised 2017).

5. GUIDING PRINCIPLES

The FGM's mission is to advance Greater Montréal as a community free from poverty and discrimination, where everyone can reach their potential and live in a healthy environment, now and in the future. The FGM is aiming for a transformation, not only in terms of its investments, but more broadly, in its approach on the financial markets.

The following guiding principles are intended to orient the FGM's interventions with impact managers.

5.1 Equity, diversity and reconciliation

In line with its mission, the FGM aims to make impact investments that target historically marginalized communities, including women, Indigenous, Black and racialized people, those with disabilities, and 2SLGBTQI+ people.

The FGM recognizes that financial markets have neglected and continue to disregard these groups. Impact investing offers the potential for reconciliation and the redistribution of financial capital to historically marginalized groups.

5.2 Complementarity

Impact investments and philanthropic contributions are thought out in a complementary fashion, so that investments constitute an additional means of achieving the FGM's mission.

5.3 Intermediaries

The FGM invests only through intermediaries and not directly in companies, with the exception of community investments. Direct investments require a much greater effort, both in terms of due diligence and legal considerations, as well as with respect to risk management and monitoring.

The FGM prioritizes impact investments in emerging impact managers and PRIs until the target of 8% of the portfolio is reached.

5.4 Exhibition in Montréal

The FGM invests in impact managers headquartered in Montréal and/or whose spinoffs are mainly in Montréal and Québec, with certain exceptions.

5.5 Partnership approach

The FGM advances an approach rooted in respect and open partnership, promoting mutually beneficial relationships with its partners and stakeholders. The preferred approach is one that is relational and trusting, as opposed to transactional approaches and power relations between capital holders and recipient groups.

Indeed, Imagine Canada reminds us that "promoting equitable social finance practices is not just a question of balancing economic and social interests. It is also part of a shift in power dynamics to afford more decision-making power to historically marginalized communities" and recipient groups.[10]

5.6 Flexibility and adaptability

The approach is intended to be flexible and adaptable in nature. Still relatively young, impact investment markets are in a state of perpetual transformation, and the FGM's desire is to adapt so as to be able to respond to the needs of the field as best as possible.

5.7 Measurability

The FGM is committed to employing a rigorous impact measurement approach to assessing the effectiveness of impact investments and ensuring their alignment with its objectives and mission. Clear indicators and proven methodologies will be used to track and report results in a transparent manner.

At the same time, mechanisms will be put into place to prevent mission drift, ensuring that financial returns do not compromise the targeted social and environmental impacts. The approach aims to preserve the integrity of the mission, while maximizing the positive impacts on targeted communities.

6. INVESTMENT TERMS AND CONDITIONS

6.1 Performance target

[10] Imagine Canada, Journey to Impact: Social Finance for Mission. The Experience of Canadian Social Purpose Organizations, 2023

The financial return target is set at 6.5% gross of management fees, measured on a five-year rolling basis, with no preference between capital gains and income. This target is derived from the Investment Policy for the entire FGMIF portfolio.

The FGM recognizes that certain investments can generate concessionary returns, particularly PRIs. The performance target for PRIs is generally lower than market expectations.

The return target for MRIs is comparable to asset class-based market expectations.

6.2 **Risk tolerance**

The FGM's risk tolerance level is medium to high for impact investments.

The level of risk tolerance reflects a strategic balance between seeking positive impacts and preserving capital. Thus, a higher tolerance for risk allows the FGM to invest in underfunded sectors or historically marginalized communities, where the needs are most pressing, and the positive impacts can be the most transformative. This approach allows for the alignment of investment decisions with the FGM's mission.

This risk tolerance comes with a rigorous and thoughtful approach. Risk management mechanisms, due diligence and ongoing monitoring of investments ensure that decisions remain aligned with financial and impact objectives. While open to calculated risk-taking, this prudent stance maximizes positive returns without compromising the sustainability of the capital invested.

The FGM also recognizes that impact investments are not *de facto* riskier than conventional investments. It is often a question of risk perception, in contrast with actual risk. In effect, some impact investments are often backed by mortgage securities (e.g., affordable housing) and demonstrate adequate risk-return levels.

6.3 **Duration**

The investment horizon for impact investing is generally long-term, given the predominant nature of private placements in this niche.

6.4 **Distributions**

The FGM does not require annual income from impact investments, nor does it rely on impact investments to assure annual distributions and the disbursement quota.

6.5 Liquidity

The FGM recognizes that impact investments often have low liquidity, given the predominant nature of private placements in this niche.

6.6 Volatility and correlation with markets

The FGM recognizes that, depending on the asset class, impact investments have varying volatility and a generally low correlation with equity markets. Some impact investments, notably the PRIs in social economy and affordable housing, have demonstrated low volatility and performance stability through periods of crisis (COVID, financial crisis of 2007-2008).

7. ALLOCATION STRATEGY

7.1 Target allocations

For information purposes, the tables below show the target distribution of impact investments **over the next 5 years** by geography and investment type. The allocation will be reassessed based on the current portfolio composition as it is rolled out.

Table 1: Geographic Distribution of Impact Investment Spinoffs

Geography	Lower Boundary	Target Weight	Upper Boundary
Greater Montréal	60%	75%	100%
Québec (excluding Gr. Mtl.)	0%	15%	40%
Other	0%	10%	20%

Impact Manager in Greater Montréal: an intermediary whose spinoffs are mainly located in Greater Montréal. Having a team and offices in Montréal is important, but the FGM prioritizes assessing where investments and benefits are occurring.

Geographical distribution should not compromise the excellence and expected performance of the selected managers.

Table 2: Distribution by Type of Investment (PRI/MRI)

Type of Investment	Lower Boundary	Target Weight	Upper Boundary
Program Investment (PRI)	30%	50%	55%
Emerging Mission Investment (MRI)	30%	40%	70%
Institutional MRIs* *Exposure to institutional MRIs is limited as they should be able to move into the non-impact portfolio*	0%	10%	20%

The most frequent impact investment opportunities to generate spinoffs in Greater Montréal and Québec are in private markets. That being said, impact investment asset classes are not limited to this and may include the following:

- Residential and commercial real estate
- Infrastructures
- Venture capital
- Private placements
- Growth capital
- Money market
- Real assets
- Private debt
- Loan guarantees

This list is non-exhaustive and may be subject to change.

7.2 Guidelines

For information purposes, the guidelines below present the limits targeted within impact investments **over the next 5 years**. These guidelines will be re-evaluated based on the actual portfolio composition as the rollout progresses.

- A single asset class should not account for more than 40% of the portfolio.
- A single impact manager should not represent more than 20% of the portfolio, with certain exceptions.
- A single theme should not represent more than 50% of the portfolio.
- Social equity and ecological transition are priority themes.
- Patient capital investments (15 years+) should not represent more than 35% of the portfolio.

- Investments in the form of loan guarantees should not represent more than 15% of the portfolio.
- Impact investments that expect to generate negative returns are not authorized.

8. TARGETED BENEFITS

The benefits targeted through impact investments and their coherence with the FGM's mission are decisive elements in the process of selecting intermediaries. However, intermediaries will be required to demonstrate an acceptable level of risk and will be subject to financial review and reasonable due diligence.

8.1 Sustainable development goals and themes

The intended benefits of impact investments must be in line with the FGM's mission and vision, in particular to advance Sustainable Development Goals (SDGs) in Greater Montréal and to be part of one of the six themes targeted by the FGM and its transversal theme:

- Climate transition
- Culture
- Health
- Education
- Social equity
- Multiple themes
- Justice, equity, diversity and inclusion

Within the context of impact investing, **the priority themes are climate transition and social equity.**

The FGM aims to ensure that all themes can be covered, even partially, by one or more impact managers. That being said, portfolio deployment is intended to be pragmatic and flexible, depending on the opportunities that emerge in the market. Moreover, it is essential that investments in one theme do not compromise or harm progress in other themes. The FGM takes an integrated and systemic approach in order to assure overall coherence between the different impact priorities.

8.2 Social economy

The FGM recognizes that the social economy ecosystem plays an essential role in Québec’s social finance market, particularly around affordable housing and patient capital instruments.

The impact investment portfolio aims to strike a balance between private impact managers and collective, not-for-profit impact managers that fund social economy enterprises and community action.

9. MONITORING AND EVALUATION

In line with the objectives and principles set out in the Policy, the FGM is committed to adopting a rigorous impact measurement approach to assessing the effectiveness of investments and demonstrating their alignment with defined social and environmental objectives. Established frameworks could serve to guide the FGM impact measurement methodology in a standardized manner and according to market best practices. The FGM expects impact managers to be able to provide relevant information related to the impacts of their underlying investments.

The monitoring and evaluation of the impact portfolio has two main objectives:

- Assess the social and environmental spinoffs of social finance intermediaries, particularly in relation to specific targets:
    a. Carbon footprint and indicator(s) related to the portfolio's financed emissions
    b. Number of affordable housing units funded
    c. SDGs affected
    d. Number of managers and capital deployed to historically marginalized communities
    e. Number of managers and capital deployed to social economy enterprises
    f. Any other targets deemed relevant

- Evaluate the deployment and financial performance of the portfolio
    a. Gross and net financial return
    b. Breakdown ($ deployed and number of funds) by theme, geography and type of investment
    c. Assessment of financial risks and losses, if applicable
    d. Investment horizon (duration) of committed capital
    e. Any other financial element

The results and progress of the impact investment portfolio are presented annually to the Investment Committee and the Impact Investment Subcommittee.

10. APPROACH AND DUE DILIGENCE

Impact managers in Québec and Canada remain relatively limited. The approach and due diligence in the selection of impact managers are intended to be distinct from those of conventional capital markets, while being fully rigorous, comprehensive and rooted in the FGM's fiduciary duty. In conventional markets, the due diligence takes more of a screening approach aimed at narrowing down the range of potential investments. In social finance, the idea is rather to move towards a value-added approach.

The FGM's due diligence process focuses on non-extractive practices, fostering long-term relationships based on trust and transparency. By adopting methods that support the sustainability and empowerment of recipient groups, the Foundation seeks to avoid exploitative or opportunistic practices.

The selection of impact managers will be anchored in an analysis grid that will aim to assess the strengths and weaknesses of these managers. A slightly different analytical lens may be developed for PRIs and MRIs. In addition, emerging managers may have no or less established performance histories. Comparable measures can be used, such as the experience of the management team or the manager's decision-making process.[11]

Certain criteria will necessarily have to be part of the due diligence:

- Investment philosophy and financial projections
- Impact thesis, benefit analysis and links to the FGM's mission
- Team expertise, networks and credibility
- Team diversity and social equity
- Added value in the activity niche and asset class
- Performance history, if applicable
- Grounding in Montréal and Québec
- Evaluation of return/risk/impact levels
- Alignment of financial incentives with social and environmental performance
- Catalytic role and additionality of the FGM as asset owner

These criteria are likely to evolve based on the FGM’s experience.

Once the managers have been selected, the FGM's contribution goes beyond the financial transaction only. A value-added approach can include coaching, networking, access to non-financial resources, support for impact measurement, etc. This approach allows recipient groups to maximize their impact on the communities and territories served.

11. EXCLUSIONS

Sectors related to weapons, adult content, gambling, tobacco production, production, processing, transport, distribution and/or extraction of fossil fuels (coal, oil, natural gas).

Notwithstanding the presence of exclusions, the FGM's impact investments are intended to generate positive spinoffs in line with the United Nations' Sustainable Development Goals (SDGs), as outlined in Section 8.

[11] World Economic Forum, “From Ideas to Practice, Pilots to Strategy Practical Solutions and Actionable Insights on How to Do Impact Investing”, 2013

As part of its commitment to impact investment practices, the FGM excludes any company from its portfolio identified as not complying with the principles of the UN Global Compact[12] at a high level. These principles, which cover human rights, labour standards, the environment, and the fight against corruption, serve as an international reference for assessing companies' practices.

Warning indicators (red flags) that may lead to exclusion include, but are not limited to:

- documented or systematic violations of human rights or decent working conditions;
- regular activities causing significant environmental damage;
- documented cases of corruption, fraud or tax evasion;
- a lack of corrective measures when shortcomings are identified.

12. POLICY REVIEW

The Policy will be reviewed annually.

[12] https://unglobalcompact.org/