


Gwaii Trust Society
Statement of Investment
Policies and Procedures

(Effective Jan 01st 2019)

Signed by 
Clyde Greenough (Feb 28, 2019)


Jason Alsop (Mar 1, 2019)

Date:

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Section 1 - Introduction

This Statement of Investment Policies and Procedures (the "Policy") has been written in order to assist the Board of Directors of the Gwaii Trust Society (the "Board") in establishing the investment procedures and guidelines for the investment of the assets of the Gwaii Trust Society (the "Fund") and in monitoring and evaluating the investment performance achieved by the Fund. Responsibility for investment of the Fund rests with the Board, including:

- The establishment of an overall investment policy, including broad asset allocation guidelines and allocation of Fund assets between investment managers (the "Managers");
- The appointment or removal of Managers and other advisors;
- Monitoring the performance of the Fund and its Managers; and
- Annual reporting on the status and operation of Fund assets.

The Board has delegated the authority to oversee the investments and governance of the Fund to an Executive Committee (the "Committee"). However the Committee is only empowered to make recommendations to the Board, unless an expressive authority has been delegated, in writing, by the Board.

The Fund is managed in accordance with all applicable legal requirements and in particular with those established by Canada Revenue Agency.

This Statement contains:

- Investment policies and procedures of the Fund established by the Board;
- Guidelines to be followed by the Managers that are consistent with the investment policies and objectives established by the Board for the Fund;
- Investment performance objectives and other criteria to be used by the Board to review and Evaluate the investment results of the Fund and the Managers.

It is anticipated that the current investment policy will be reviewed regularly (at least annually) and may be changed based on altered economic conditions. The Board may amend or modify the statement at any time, and shall notify the Managers of any such amendment or modification.

Any changes or modifications made to this Statement of Investment will be published under the public website: www.gwaiitrust.com in a timely manner.

Purpose of the Fund:

The Fund has been established for the benefit of current and future generations of the Haida Gwaii communities in perpetuity.

The main purpose of the Fund is to provide annual disbursements that are sustainable while protecting against inflation over the long term. In this context, sustainable means that the Fund provides a similar level of purchasing power (in real terms) without undue risk of depleting its long term real capital value.

The portion of the Fund that represents the original capital, with adjustment for inflation since inception without allowing for cash flows out of the Fund, is considered to be the 'protected' portion of the Fund's assets. The amount of the Fund in excess of this protected portion is considered to be a 'Reserve'. Spending should not be undertaken, in either the short term or as anticipated over the long term, which would be expected to deplete the Fund such that the 'Reserve' becomes negative.

Section 2 - Investment Objectives and Risk Profile

Investment Objectives:

The Fund is to be managed on a going concern basis with the intention of sustaining the Fund in perpetuity. All aspects of fiduciary conduct in respect of the Fund's investments will be undertaken in a prudent manner, as directed by the Trustee Act (see Appendix III). The investment of the Fund's assets will always comply with the current requirements of any relevant legislation.

The expected long term rate of return on the Fund is an investment objective which recognizes the nature of the Fund's spending requirements, time horizon and risk tolerance. The Fund's spending requirements, time horizon and risk tolerance may change from time to time, and accordingly, the Fund's objectives will be reviewed by the Board from time to time.

The Fund's current investment objectives comprise of the following components:

1. Capital/income requirements sufficient to compensate for any erosion in capital value and spending ability of the Fund, as a result of price inflation;
2. Income requirements sufficient to meet commitments to current programs and administrative expenses, i.e. sufficient liquidity.

These objectives have been taken into account in setting the Fund's asset profile.

Risk Profile:

Longer Term Risk Profile:

The major long term risk to the Fund is the possibility of not meeting the objectives set out in 1 and 2 above. Prior to meeting the ongoing spending requirements, the Fund has to maintain the real value of its capital in order to sustain its spending ability. This risk is defined as the probability of not maintaining the real value of the Fund's capital over 5 year and longer periods of time.

Shorter Term Risk Profile:

The short term risk is of having insufficient liquidity to meet short term obligations.

Return Expectations:

Fund Return Objectives:

The basic goal underlying the establishment of the Fund's investment policy is to ensure that the assets, along with expected future net cash flows, are invested in a prudent manner to preserve the purchasing power of the fund (using the CPI Index as at Dec 31st of each year, as a proxy) and to meet the Fund's anticipated cash flow requirements, without the need for external financing or reductions in program spending from a level that can reasonably be expected to be maintained over the long term.

Subject to the above requirement, the secondary objective is to maximize the return on the assets over the longer term, subject to accepting an appropriate level of risk, taking into account any restrictions on allowable investments.

Manager Return Expectations:

The Manager(s) are expected to achieve returns that:

1. Net of investment expenses, exceed the return that would be achieved on a passive benchmark portfolio with an asset mix in accordance with Section 4 over moving 4 year time periods. The excess return targets and the periods of assessment are as outlined in the table below, and are minimum amounts by which the managers should exceed their benchmarks. The returns assumed on the benchmark portfolio will be the composite of indices chosen by the Board as set forth in Appendix II.
2. Net of investment expenses, exceed the return that would be achieved on a portfolio of Real Rate Bonds over moving 4 year time periods. This is a proxy for meeting the program and administration expenses of the Society over time.

Manager specific – Excess Return Targets:

Asset Class	Manager	Benchmark	Net Excess Target
Global Equities	Franklin Templeton & Nicola Wealth Management	MSCI World Index (C\$)	1.5%
Canadian Equities	Philips Hager & North	50% S&P/TSX Capped Composite Index 50% S&P/TSX Equity Index	1.0%
Nominal Bonds	Philips Hager & North	FTSE-TMX Canada Universe Bond Index	0.50%
Global Bonds	Philips Hager & North	FTSE Global Bond Index	0.50%
Real Return Bonds	Philips Hager & North	FTSE-TMX Canada Real Return Bond Index	0.00% ^{*1}
High Yield Bonds	Philip Hager & North	FTSE-TMX Canada Universe Bond Index	N/A ^{*2}
Real Estate	Nicola Wealth Mgmt.	Investment Property Index (IPD)	1.00%
Private Placement	As Designated	Consumer Price Index (CPI)	2.00%

1. The Real Return Bond fund is effectively a passive fund.
2. Target excess return is included in the nominal bond allocation target as exposure to high yield will be obtained tactically.

Section 3 - Asset Mix and Eligible Investments:

Strategic Asset Mix

The asset mix has been set so as to achieve the investment objectives of the Society within the restrictions of the regulatory environment. A Benchmark Portfolio consisting primarily of Fixed Income, Equities and other pre-approved investments will form the basis of the investment strategy. The Manager(s) may only invest in securities listed in this document or securities that the board has given explicit written consent to invest in.

Determination of the Strategic Asset Mix

An analysis of the probable returns based on historical relationships and forward looking expectations between asset classes was undertaken. The strategic mix was chosen in a manner to maximize the expected long term return subject to the constraints of the regulatory environment and the long term spending needs. The inputs to this analysis are set out in Appendix I.

Long Term Target Asset Mix

Taking into account the above mentioned constraints and expectations, a target, minimum and maximum allocation of assets has been derived as follows:

As a Percentage of Portfolio

Asset Class	Minimum	Target	Maximum
Canadian equities	15	20	25
Global equities	28	33	48
Total equities	43	53	73
Real return bonds	5	6	20
Nominal bonds	12	17	22
High yield bonds ¹	0	5	10
Global bonds	0	5	5
Total bonds	17	33	57
Real Estate & Mortgages (Real Estate Development 0-25% Of R.E. holdings)	5	10	22
Private Placement	0	4	10
Cash	0	0	5
Total		100	

1. Due to the nature of the asset class, the high yield bond allocation will be managed tactically by the bond investment manager.

The portfolio can be altered within the bounds set out above to take account of shorter term fluctuations in the market and economic cycle.

Asset Classes Eligible for Investment and Guidelines in respect thereof:

The Manager(s) is expected to exercise due prudence in the management of the assets and diversify investments sufficiently to minimize the risk of large losses unless prevailing circumstances or the constraints of the mandate render it imprudent or impractical to do so.

Rebalancing:

A disciplined rebalancing procedure for the asset mix will be followed and implemented on a quarterly basis. The assessment of the need to rebalance the assets of the Fund will be undertaken by the Committee on a passive threshold approach. In other words, when the asset mix has drifted as of the end of a quarter beyond the limits identified in the table above, including asset class limits, then the assets will be rebalanced back to within the target weights. This test will be applied to all asset classes in accordance with the above table. However, due to the nature of the asset class, a trigger for rebalancing cannot arise purely as a result of the allocation to High Yield bonds alone. When implemented, the rebalancing will be done at an asset class level and at the Manager level.

To avoid unnecessary buying and selling of securities, where possible, the Committee will use spending draw-downs to affect all or part of a rebalancing exercise.

Short Term Spending:

Annually an amount of the Fund is allocated towards community spending awards, administration and other regular expenses. This annual spending allocation will be established by the Committee for the Board's approval. Once approved, it will be communicated to the bond managers to ensure that there is enough liquidity in the Fund, and the amounts will be drawn down in 25% tranches each quarter whenever possible.

Section 4 - Quantitative and Qualitative Guidelines:

All investments are expected to conform to the guidelines presented herein. Due consideration will be given to the liquidity requirements of the Fund as these exist from time to time. The extent of further debt and equity diversification shall be at the discretion of the Managers. In addition to the industry and economic sector limitations indicated, Managers are expected to exercise prudence and follow internal policy norms as set from time to time. In addition to any other restrictions imposed by the Regulations, the following quantitative and qualitative guidelines must be met.

Equity Guidelines:

1. Investment in any one corporation or 2 or more affiliated corporations may not exceed 10% of the book value of the Fund. Investment in any one corporation may not exceed 10% of the market value of the equity portfolio. This restriction does not apply to an investment in any segregated, mutual or pooled fund that complies with these guidelines.
2. Writing of covered options on equity shares held is permitted.
3. No more than 10% of the voting shares of any one corporation may be held.

Bond Guidelines:

1. The minimum quality standard for individual bonds and debentures in the Fund, other than for the high yield bond allocation, will be "BBB (low)" rating, as rated by the Dominion Bond Rating Service or the equivalent rating by a recognized rating agency, at the time of acquisition.
2. The high yield bond allocation minimum quality standard for individual bonds and debentures in the Fund will be "CCC minus" or "CCC (low)" rating, as rated by the Dominion Bond Rating Service or the equivalent rating by a recognized rating agency, at the time of acquisition. The high yield bond allocation may purchase a maximum of 10% of net assets of the allocation in non-rated bonds (issues listed on a public exchange are exempt).
3. Liquid private placements should be rated "BBB(low)" or better by the above-mentioned agencies, have at least \$100 million outstanding, be broadly diversified and are not to constitute more than 10% of the market value of the bond portfolio.
4. No more than 25% of the bond portfolio by market value including any allocation to high yield bonds may be held in issues rated below A (low) at the time of purchase.
5. Bonds of Canadian issuers denominated in foreign currencies other than the U.S. dollar are limited to 5% of the market value of the bond portfolio. In total, foreign currency denominated issues are limited to 10% of the market value of the bond portfolio.

6. Corporate issues, which include corporate bonds, debentures not including convertible debentures, may not exceed 60% of the market value of the bond portfolio.
7. Investments in issues of any one corporation may not exceed 8% of the market value of the bond portfolio.
8. Investments in non-Canadian bonds shall be limited to 5% of the bond portfolio and will comprise of government and corporate bonds of entities domiciled in either emerging and/or developed markets.

Short Term Investment Guidelines:

Short term investments are bond and money market investments and deposits having a maturity of twelve months or less and:

1. Holdings of such assets will be sufficient to meet the liquidity requirements of the Fund as these exist from time to time.
2. Rating may not be less than R-1(low)/A (low) at the time of acquisition.
3. Deposits with banks, trust companies and other financial institutions shall be limited to 10% of the book value of the Fund's assets.
4. No more than 3% of the book value of the Fund may be held on deposit with any single bank, trust company or other financial institution.

Mortgage Guidelines:

1. The total investment in mortgages may not exceed 15% of the market value of the Fund. Mortgage investments made by Managers including pooled mortgage fund investments may not exceed 15% of the market value of the assets managed by such Manager.
2. Mortgage investments shall be restricted to first mortgages of industrial, residential, commercial and office properties across Canada. Pooled mortgage fund investments shall be restricted to mortgage funds whose portfolios conform to the Regulations.
3. Individual mortgage investments may not exceed 75% of the market value of the underlying property.

Real Estate Guidelines:

1. Real estate investments may include direct investments or investments through participating debentures, shares of corporations or partnerships formed to invest in real estate properties, or securities held in a real estate pooled fund.
2. Any interest in a partnership must be as a limited partner and not as a general partner.
3. Real estate investments may include trust units, income trust units and interests limited partnerships of Canadian issuers traded on recognized public exchanges.
4. In respect of any real estate investment trust and income trusts held, such trusts:
 - I. Must be reporting issuers under the applicable securities legislation in Canada
 - II. Must be governed by the laws of a province that limits the liabilities of unit holders by statute.

Other Guidelines:

1. Direct private placements into communities which the Trust supports may not be made without prior approval of the Board. ¹ These private placements are separate from the private placement made within the bonds component of the portfolio.
2. The following derivative instruments and their combinations are acceptable:
 - a. Forward Rate Agreements
 - b. Equity and Fixed Income Options
 - c. Financial Futures
 - d. Interest Rate and Inflation Swaps

Activity must be restricted to amounts required for hedging or short term portfolio adjustment on a non-leveraged basis. Other commodities or future contracts and short sales are not permitted.
3. Lending of securities is permitted pursuant to appropriate agreements and documentation and approval of the Board.
4. The voting rights on securities held in the portfolio are left to the discretion of the Managers.
5. The Managers are expected to act in good faith and to inform the Board of any upcoming vote that may significantly affect the value of the securities. In the case of pooled funds, the Managers are exempt from informing the Board of any upcoming votes.
6. All investments that are not regularly traded will be appraised and valued periodically but not less frequently than triennially by qualified independent professionals appointed by the Board.

¹ Private Placement guidelines follow as Appendices (IV)

Socially responsible Investments:

All other factors being equal, favourable consideration is to be given by the Manager(s) to investment opportunities which may serve to benefit the environment and the local economy. To the extent that these opportunities fall outside the acceptable asset classes set out herein, the Board reserves the right to invest in such investments subject to compliance with the Trustee Act (See Appendix 3 – Trustee Act). Any such investment shall be excluded from any measurement of the Manager(s) performance.

Related Party Transactions:

No related party transactions will be permitted. Related party transactions include any proposals made by such parties concerning any potential investment in which such related party has a material beneficial interest. A related party is any person responsible for holding or investing the assets of the Society or any person involved in setting policy related thereto, including officers, directors and employees with such involvement.

Manager Responsibilities:

The duties and responsibilities of each Manager include:

1. Adhering to these policies and procedures.
2. Communication with the Board on a regular basis and notifying the Board in the event the manager believes that the guidelines are adversely affecting performance or are unattainable.
3. Notifying the Board of any change in economic or market circumstances which may adversely impact on this investment strategy.
4. Notify of any change in investment personnel, ownership or other factors which may influence the investment process.
5. Investing the Society's assets with the care, skill, prudence and diligence that a professional investment manager / prudent person would exercise in the investment of the Society's assets.
6. Ensuring at all times that investments are in compliance with any relevant legislation. Reporting on such compliance on a regular basis.
7. Pooled fund investments will be subject to the Manager's pooled fund SIP. The Manager's SIPP must be approved by the Board prior to investing in the pooled fund. The Manager is responsible for providing a copy of the SIPP to the board. Any subsequent changes to the pooled Fund SIPP must be communicated and approved by the Board to ensure that the investment remains compliant.

Measurement of Performance:

Suitable benchmarks for the performance of the assets in the Benchmark Portfolio and those permissible for yield enhancement will be established by the Board in conjunction with the Manager(s). These are set out in Appendix II.

Dismissal of Investment Manager:

Reasons for terminating the service of a Manager include, but are not limited to, the following factors:

- Failure of the Manager to meet the return expectations, specified under Section I, will result in the Trustees giving consideration to termination of the manager's services.
- In addition the failure of the Manager to meet the above noted benchmark less a margin of 2% p.a. over moving 2 year periods will result in the Trustees giving consideration to termination of the manager's services.
- Changes in investment professionals, firm structure, or investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio.

- Failure to adhere to the stated investment policies and procedures.
- Changes in the structure of the overall Fund which would no longer necessitate the use of a manager's service.

Other Considerations:

This investment policy has been established based on an assumption that the Society will remain a tax exempt entity.

Budgeting:

Each year, the Directors of the Society will develop a budget which is consistent with the current asset mix and investment policy. This budget will incorporate the Society's anticipated spending plans in respect of programs and administration costs.

Spending Policy:

Spending refers to the Trust's awards to the Community and administrative expenses of operating the Trust. Based on a periodic study that was last done in 2015, a 3.5-4% spending rate is sustainable as long as investment returns and inflation do not vary greatly from what is expected.

The Manager(s) shall notify the Committee in writing in the event the manager believes that these Policies and Procedures are adversely affecting performance or are unattainable.

Appendix I

Assumptions Underlying the Determination of the Strategic Asset Mix: (10 Year Outlook*)

Asset Class	Annual Distribution		10-yr Annualized Distribution	
	Arithmetic Mean	Standard Deviation	Geometric Mean	Standard Deviation
Inflation	2.0%	1.5%	2.0%	0.5%
91 Day T-Bill	2.0%	0.4%	2.0%	0.1%
Universe Bonds	2.8%	4.1%	2.7%	1.3%
Long Term Bonds	3.3%	7.4%	3.0%	2.3%
Real Return Bonds	2.6%	8.4%	2.2%	2.7%
Canadian Equities	8.0%	16.6%	6.7%	5.3%
Canadian Small Cap Equities	9.5%	19.9%	7.7%	6.3%
U.S. Equities	8.2%	14.2%	7.3%	4.5%
U.S. Small Cap Equities	10.1%	19.3%	8.4%	6.1%
U.S. Equities (USD)	8.4%	16.2%	7.3%	5.1%
U.S. Small Cap Equities (USD)	10.3%	21.7%	8.3%	6.9%
International Equities	8.5%	18.1%	7.0%	5.7%
International Equities (Local)	8.6%	18.8%	7.0%	5.9%
Global Equities	8.3%	14.8%	7.3%	4.7%
Global Equities (Local)	8.5%	16.4%	7.3%	5.2%
Emerging Market Equities	11.9%	24.2%	9.3%	7.6%
Fund of Hedge Funds (USD)	6.3%	8.0%	6.0%	2.5%
Private Equity (USD)	13.0%	26.7%	10.0%	8.5%
Global Aggregate ex-Canada Bonds	1.6%	8.3%	1.2%	2.6%
Global Aggregate ex-Canada Bonds (Local)	1.8%	3.2%	1.8%	1.0%
U.S. High Yield Bonds	5.4%	9.9%	4.9%	3.1%
Direct Real Estate	5.7%	10.0%	5.3%	3.2%
Direct Infrastructure	7.8%	13.0%	7.0%	4.1%
20+ Strip Bonds	4.2%	14.5%	3.2%	4.9%

*(Assumptions are for expected returns for the next 10 years, and are estimates only, based on current markets, and available information, and as such they are subject to change as markets/conditions fluctuate. Under the Header "Annual Distribution", arithmetic mean numbers show the expected annual returns, while standard deviation reflects the expected annual volatility. Under the header "10-year Annualized Distribution", geometric mean numbers show expected annualized returns over the 10 year period. The annualized returns are also influenced by the level of volatility, as represented by the last column, standard deviation. The gap between the annual and annualized widens for more volatile asset classes)

Appendix II

Proxy Indices for Benchmark Portfolios:

1. Interest Bearing Nominal Bond Portion of Benchmark Portfolio:
 - a. FTSE TMX Canada Universe Bond Index
2. Interest Bearing Real Return Bond Portion of Benchmark Portfolio:
 - a. FTSE TMX Canada Real Return Bond Index.
3. Interest Bearing Global Bond Portion of Benchmark Portfolio:
 - a. FTSE Global Bond Index
4. Equity Portion of Benchmark Portfolio
 - a. Canadian – 50% S&P/TSX Capped Composite Index / 50% S&P/TSX Equity Income Index
 - b. Global - MSCI World Index (w/ gross dividends reinvested) (CDN\$)

Total return over the measurement period on Canada Government Real Return Bonds

Appendix III

Trustee Act

R.S.B.C. 1996, c. 464, s. 15

[Effective April 21, 1997 to February 27, 2003]

TRUSTEE ACT

RSBC 1996, CHAPTER 464

Section 15.1

Current to Dec 31st, 2017

Investment of trust property

15.1 (1) *A trustee may invest property in any form of property or security in which a prudent investor might invest, including a security issued by an investment fund as defined in the Securities Act.*

(2) Subsection (1) does not authorize a trustee to invest in a manner that is inconsistent with the trust.

(3) Without limiting subsection (1), a trustee may invest trust property in a common trust fund managed by a trust company, whether or not the trust company is a co-trustee.

Standard of care

15.2 *In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments.*

Trustee not liable if overall investment strategy is prudent

15.3 *A trustee is not liable for a loss to the trust arising from the investment of trust property if the conduct of the trustee that led to the loss conformed to a plan or strategy for the investment of the trust property, comprising reasonable assessments of risk and return that a prudent investor would adopt under comparable circumstances.*

Abrogation of common law rules: anti-netting rules

15.4 (1) *The rule of general trust law that requires the assessment of the decisions of a trustee on an investment by investment basis if the decisions are called into question is abrogated.*

(2) The rule for the assessment of damages for breach of trust that prohibits losses from being offset by gains is abrogated except in respect of circumstances in which the breach is associated with dishonesty on the part of the trustee.

Delegation of authority with respect to Investment

15.5 (1) *In this section, “agent” means any person to whom a trustee delegates investment responsibility.*

(2) *A trustee may delegate to an agent the degree of authority with respect to the investment of trust property that a prudent investor might delegate in accordance with ordinary business practice.*

(3) *A trustee who delegates authority under subsection (2) must determine the investment objectives for the trust and exercise prudence in*

(a) selecting an agent,

(b) establishing the terms and limits of the authority delegated,

(c) acquainting the agent with the investment objectives, and

(d) monitoring the performance of the agent to ensure compliance with the terms of the delegation.

(4) *In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.*

(5) *A trustee who complies with the requirements of subsection (3) is not liable to the beneficiaries or to the trust for the decisions or actions of the agents to whom the function was delegated.*

(6) *This section does not authorize a trustee to delegate authority under circumstances in which the trust requires the trustee to act personally.*

(7) *Investment in an investment fund referred to in section 15.1 (1) or a common trust fund referred to in section 15.1 (3) is not a delegation of authority with respect to the investment of trust property.*

Appendix IV

Private Placements

1) Private Placements include any direct investment in a commercial entity or real estate that can be demonstrated to show significant benefit to Haida Gwaii residents. The investment may be by way of equity, debt or a combination of these two investment structures.

2) Ineligible Investments:

(i) Businesses that operate, or have a history of operating, in breach of environmental legislation.

(ii) Businesses that generate a material percentage of their revenues from activities inconsistent with the values of the Gwaii Trust Society.

(iii) Businesses that maintain the majority of their staff, or their main offices, outside of Haida Gwaii. (Real estate purchases and or partnerships would be a permitted exception) GTS may choose to partner with an entity from outside of Haida Gwaii for purposes of investing in a Haida Gwaii-based enterprise.

3) Concentration Limits:

(i) No new Investment in the Private Placements portfolio will be undertaken that would exceed the lesser of \$10,000,000, or 10% of the current market value of the Gwaii Trust Society's total investment portfolio as of the date of the investment.

(ii) Should a circumstance arise that would result in the concentration limit being exceeded, Investment Staff will immediately undertake a review of the Investment to determine whether GTS's commitment could be reduced. If such a reduction is not possible or would have an immediate negative impact, Investment Staff has the authority to continue managing the Investment on the understanding that no further advances will be made, unless contractually committed, until the concentration limit is restored.

4) Derivatives:

(i) Derivatives may be used for risk management, including the hedging of foreign currency, interest rate or commodity price risks.

(ii) The use of derivatives for speculative or leveraging purposes is prohibited.

5) Leverage:

(i) Borrowed funds may be used to lever investments in Private Placements in a manner consistent with market practice.









Gwaii Trust Society - SIPP - Dec 31st 2017 - Final

Final Audit Report

2019-03-01

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