


K'ÓMOKS FIRST NATION INVESTMENT FUND
Statement of Investment
Policies and Procedures

Approval date:

Effective date:

The undersigned hereby certify that this Statement of Investment Policies and Procedures was adopted by the Council


Chief Nicole Rempel


Councillor Josh Frank


Councillor Sharlene Frank


Councillor Melissa Quocksister

February 5, 2018
(Date)

Table of Contents

SECTION I – INTRODUCTION.....	1
SECTION II – ROLES AND RESPONSIBILITIES	2
SECTION III – FUND OVERVIEW	5
SECTION IV – PERMITTED CATEGORIES OF INVESTMENT	11
SECTION V – PORTFOLIO DIVERSIFICATION AND CONSTRAINTS.....	14
SECTION VI – LOANS AND BORROWING.....	15
SECTION VII – VOTING RIGHTS.....	16
SECTION VIII – VALUATION OF INVESTMENTS.....	17
SECTION IX – RELATED PARTIES AND CONFLICTS OF INTEREST	16
SECTION X – MONITORING INVESTMENT PERFORMANCE	21
SECTION XI – POLICY REVIEW.....	23

SECTION I – INTRODUCTION

- 1.1 This document constitutes the Statement of Investment Policies and Procedures (the "Policy") applicable to the assets (the "Investment Fund" or "Fund") held in respect of the K'ómoks First Nation (the "KFN"). The Fund is comprised of two separate funds:

Long Term Fund

The Long Term Fund is comprised of investments that are held from five years to perpetuity. It is intended that the original capital investment remains intact and the capital gains and income earned on these investments will be distributed in accordance with the Spending Policy established by KFN.

Short Term Fund

The Short Term Fund is comprised of investments which are intended to be drawn down over a three to five year time horizon to fund the capital, educational and research programs of the KFN, and distributed in accordance with the Spending Policy established by KFN.

- 1.2 The purpose of this Policy is to formulate those investment principles, guidelines and monitoring procedures which are appropriate to the needs and objectives of the Fund, in accordance with all applicable legal and legislative requirements.
- 1.3 Any Investment Manager (the "Manager") or other party providing services in connection with the investment of the Fund shall accept and adhere to this Policy.

SECTION II – ROLES AND RESPONSIBILITIES

2.1 Responsibility for the Fund rests with the KFN through its Council (the "Council"), and it has the sole power to adopt, amend or terminate policies related to the Fund. The Council may delegate some of its responsibilities with respect to investment of the Fund to agents and advisors.

2.2 **Investment Fund Committee**

The Investment Fund Committee (the "Committee") has been delegated the duties of overseeing and administering the Fund.

The Committee is responsible for:

- Formulating and recommending amendments to this Policy when necessary,
- Reviewing this Policy at least once per year,
- Reporting to the Council any significant difference in performance from benchmarks, changes in Manager's personnel, or any other event that may impact the Fund performance or the relationship with the Manager,
- Informing the Manager and the Council of any significant cash flows,
- Recommending to the Council an appropriate asset mix for the Fund,
- Recommending to the Council an appropriate Managers structure for the Fund,
- Recommending to the Council appointments and changes to the Manager, Custodian and Consultant/Advisor on an as required and ad hoc basis,
- Monitoring and assessing the performance of the Manager, Custodian and Consultant/Advisor.

All of the above is subject to Council approval.

2.3 Investment Manager

The Manager is responsible for:

- Meeting or exceeding the agreed upon fund objectives subject to the constraints noted within this Policy,
- Selecting securities or investments within such asset classes consistent with and according to the provisions of this Policy,
- Allocating assets among asset classes in which they are authorized to invest consistent with the provisions of this Policy,
- Providing the Committee with monthly reports of actual portfolio holdings and a quantitative review of investment performance,
- Calculating and reporting rates of return, by asset class on a quarterly basis,
- Attending meetings of the Committee to review performance and to discuss proposed investment strategies,
- Advising the Committee of any elements of this Policy that could prevent or enhance attainment of the Fund's objectives including any significant personnel or ownership changes within the Manager's corporation.

2.4 The Custodian

The Custodian is responsible for:

- Safekeeping of assets,
- Processing transactions as directed by the Committee or the Managers,
- Informing the Managers of cash available for investing,

- Providing the Managers and the Consultant with agreed-upon information required to execute their mandate,
- Maintaining a record of all transactions,
- Providing periodic reports of income (cash flows) and holdings,
- Such other matters as directed by the Committee from time to time.

2.5 **Consultants/Advisors**

The role of the Consultants/Advisors consists of providing investment information and advice on request regarding:

- The Policy,
- Selection and supervision of the Custodian and the Managers,
- Measurement and evaluation of investment returns,
- Explanation to the Committee of characteristics of other asset classes considered worthwhile for the Fund and how they might assist in achieving the Fund's objectives,
- Such other matters as directed by the Committee from time to time.

2.6 Where the Committee desires to invest in segregated funds of an insurance company, pooled funds or mutual funds eligible for investment by the Fund ("Pooled Funds" or "Mutual Funds"), the Committee must satisfy itself that the investment policy of such Pooled Fund is consistent with this Policy.

2.7 The Committee may rely on independent experts for certain aspects of the Fund's operations where expert knowledge is required or desired or where a potential or actual conflict of interest exists.

SECTION III – FUND OVERVIEW

- 3.1 The KFN has two distinct funds as noted in Section I. Each fund has a unique purpose and is governed by the following individual investment criteria.

The overall investment philosophy of each Fund is to maximize the real rate of return subject to a conservative degree of risk. In particular, the Fund seeks to:

- Preserve the principal of the Fund,
- Achieve a maximum rate of return subject to the restrictions within this policy,
- Provide returns and liquidity sufficient to meet the KFN's needs on a timely basis.

The Funds are to be managed on a total return basis, with no differentiation made between interest income, dividend income and capital appreciation.

The asset allocations have been determined in order to meet the Fund objectives. It reflects a risk/return trade-off that was assessed by the Committee.

3.2 Long Term Fund

The purpose of the Long Term Fund is to provide ongoing long-term financial support to the KFN.

Spending Policy

- The Fund distribution rate will be reviewed and set by the Investment Fund Committee annually and approved by the Council.
- The Fund distribution will be based on the average market value of the Long Term Fund each year.
- The average market value of the Long Term Fund will be the average of the last 12 quarters ending December 31.

- Allocation of investment income will be paid out at the end of each quarter.

Investment Objectives

- The objective of the Long Term Fund is to meet its investment targets over a four year time horizon;
- It is desirable to preserve the fund principal and earn a real rate of return, after management fees, in excess of the previous year's Canadian Consumer Price Index (CPI) plus 3.5%;
- The Fund is expected to earn an annual rate of return of 75 basis points in excess of the benchmark return and management fees, over four year rolling periods.
The benchmark is composed of:

40% - FTSE TMX Canada Universe Bond Index;
25% - S&P/TSX Composite Index;
35% - MSCI World Index (CDN\$)

3.3 Asset Allocation Policy and Ranges – Long Term Fund

Asset Class	Minimum*	Policy*	Maximum*
Canadian Equities	15%	25%	35%
Global Equities	25%	35%	45%
Total Equities	40%	60%	70%
Fixed Income	30%	40%	60%
Cash & Short-Term	0%	0%	10%

* Percentage of portfolio at market value.

Cash and cash equivalents may also be held from time to time on a short-term, temporary basis or as defensive reserves within the portfolios for each asset class at the discretion of each Manager within the constraints prescribed by its Mandate. If the asset mix deviates outside the above ranges, at the end of any quarter, the Custodian is to take corrective action to bring the asset mix back within the range as soon as practicable.

For each actively managed mandate, the following details the value add expectations relative to the corresponding benchmark, net of fees. It is expected that each manager will achieve these performance targets for each of their respective mandates, measured over rolling four year periods:

- FTSE TMX Canada Universe Bond Index plus 0.40%
- S&P/TSX Composite Index plus 1.0%;
- MSCI World Index (CDN\$) plus 1.0%

The risk inherent in the investment strategy over a market cycle (a five to ten year period) is three fold. There is a risk that the market returns will not be in line with expectations. To the degree that an active management style is employed, there is a

risk that the added return expected of active management over passive management will not be realized, or will be negative. There is also the risk of annual volatility in returns which means that in any one year the actual return may be very different from the expected return (such return may also be negative).

3.4 Short Term Fund

The purpose of the Short Term Fund is to provide short-term financial support to the KFN.

Considerations

- Funds that projected to be utilized or paid out by the KFN within six months shall be held in the KFN's bank account, or in the opinion of the Committee, may be placed with the Manager however the investments must be limited to the Short Term Asset Allocation. Funds that are being held by the KFN to support a specific use but that have uncertain timing, shall generally be limited to the Short Term Allocation.
- Given the nature of these Short Term Funds, preservation of capital as well as a reasonable rate of return are primary considerations.

Investment Objectives

- The objective of the Short Term Fund is to meet its investment targets over a short to medium term time horizon;
- It is desirable to preserve the fund principal and earn a real rate of return, after management fees, in excess of the previous year's Canadian Consumer Price Index (CPI) plus 2%;
- The Short Term Fund is expected to earn an annual rate of return of 30 basis points in excess of the benchmark return and management fees, over three year rolling periods. The benchmark is composed of:

- 40% - FTSE TMX Canada Short Term Bond Index;
- 40% - FTSE TMX Canada Mid Term Bond Index;
- 10% - S&P/TSX Composite Capped Index;
- 10% - MSCI World (ex-Canada) Index (CDN\$)

3.5 Asset Allocation Ranges – Short Term Fund

Asset Class	Minimum*	Policy*	Maximum*
Canadian Equities	5%	10%	15%
Global Equities	5%	10%	15%
Total Equities	25%	20%	50%
Fixed income	70%	80%	90%
Cash & short-term	0%	0%	20%

* Percentage of portfolio at market value.

Cash and cash equivalents may also be held from time to time on a short-term, temporary basis or as defensive reserves within the portfolios for each asset class at the discretion of each Manager within the constraints prescribed by its Mandate. If the asset mix deviates outside the above ranges, at the end of any quarter, the Custodian is to take corrective action to bring the asset mix back within the range as soon as practicable.

For each actively managed mandate, the following details the value add expectations relative to the corresponding benchmark, net of fees. It is expected that each manager will achieve these performance targets for each of their respective mandates, measured over rolling four year periods:

FTSE TMX Canada Short Term Bond Index plus 0.20%
FTSE TMX Canada Mid Term Bond Index plus 0.30%
S&P/TSX Composite Index plus 1.0%;
MSCI World Index (CDN\$) plus 1.0%

The risk inherent in the investment strategy over a market cycle (a five to ten year period) is three fold. There is a risk that the market returns will not be in line with expectations. To the degree that an active management style is employed, there is a risk that the added return expected of active management over passive management will not be realized, or will be negative. There is also the risk of annual volatility in returns which means that in any one year the actual return may be very different from the expected return (such return may also be negative).

SECTION IV – PERMITTED CATEGORIES OF INVESTMENT

4.1 From time to time, and subject to this Policy, the Fund may invest in any or all of the following asset categories and subcategories of investments either directly or through Pooled Funds which hold only these investments. To the extent the Fund invests in Pooled Funds or Mutual Funds, the investment constraints outlined below and any other provisions of the Policy that may be affected, shall not apply, but the Manager shall be governed by the Manager's own investment policy for the Pooled Funds.

(a) **Canadian Equity:**

- (i) Common stocks, convertible debentures, share purchase warrants, share purchase rights or preferred shares of Canadian public and private companies.
- (ii) Units in real estate investment trusts and income trusts that are reporting issuers under applicable securities legislation in Canada and that are governed by the laws of a province in Canada that limits the liability at unitholders by statute.

(b) **Foreign Equity:** common stocks, convertible debentures, preferred shares, share purchase warrants, share purchase rights or depositary receipts of publicly traded non-Canadian companies.

(c) **Real Estate:** real property, whether held directly or through open or closed-end pooled funds, participating debentures, shares of corporations or partnerships formed for pension funds to invest in real estate.

(d) **Other:** natural resource properties or participation rights whether purchased directly, or through closed or open-ended pooled funds, or through participating debentures or shares of corporations or partnerships formed to invest in natural resources properties.

(e) Fixed Income:

- (i) Bonds, debentures, mortgages, notes or other debt instruments of governments or corporations (public and private).
- (ii) Guaranteed investment contracts or equivalent financial instruments of Canadian insurance companies, trust companies, banks or other eligible issuers.
- (iii) Annuities, deposit administration contracts or other similar instruments regulated by the Insurance Companies Act (Canada) or comparable provincial law, as amended from time to time.
- (iv) Term deposits or similar instruments of Canadian trust companies and banks.

(f) Cash or Cash Equivalents:

- (i) Deposits with banks or trust companies.
- (ii) Money market securities issued by governments or Canadian corporations (public and private) with term to maturity of one year or less.

Other Investments:

- 4.2 The Fund may not invest in categories of assets or instruments not specifically provided for in this Section, including but not limited to commodities, precious metals, mineral rights, bullion or collectibles.
- 4.3 The assets of the Fund shall not, directly or indirectly, be invested in securities of a listed person as defined by the United Nations Suppression of Terrorism Regulations, or loaned or used for the benefit of such a person.

4.4 Prohibited Transactions

The Fund will not engage in the following unless permitted in writing by the Committee:

- Purchase of securities on margin,
- Loans to individuals,
- Short sales,
- Direct investments in real estate, venture capital, resource properties, and commodity funds.

SECTION V – PORTFOLIO DIVERSIFICATION AND CONSTRAINTS

- 5.1 The Fund will be invested in Pooled Funds or Mutual Funds that cover a broad spectrum of asset classes as required by the Investment mandate for the Fund that has been established by KFN. Each Pooled Fund or Mutual Fund will be invested by an Investment Manager (the "Manager").
- 5.2 The Manager(s) shall be responsible to:
- (a) Invest the assets allocated to them in accordance with the requirements of the investment policy established for the respective Pooled Fund. The investment policy for each Pooled Fund sets out investment discretion, constraints and return objectives for the Pooled Fund;
 - (b) Ensure that there are sufficient assets in the Fund to provide for cash flow payments without a distress sale of assets;
 - (c) Provide on an annual basis, or whenever changes occur, their current policies and procedures relating to voting rights on securities, soft dollars, professional standards, conflicts of interest, internal controls and trading policies; and
 - (d) Meet all the requirements to permit a proper assessment of the performance and compliance of the Manager with the respective investment policy for the Pooled Fund.

SECTION VI – LOANS AND BORROWING

- 6.1 No part of the Fund shall be loaned to any party, other than through the purchase of debt instruments permitted under Section IV and which otherwise meet the requirements of this Policy.
- 6.2 Money shall not be borrowed on behalf of the Fund and the Fund's assets shall not be pledged or otherwise encumbered in respect thereof, except:
 - (a) For and to the extent of temporary overdrafts that occur in the course of normal day-to-day portfolio management.
 - (b) For a loan secured by a mortgage on a real estate investment of the Fund.
- 6.3 The lending of securities through the Custodian is permitted (if applicable), subject to the terms of the Securities Lending Agreement and applicable legislation. Securities Lending is permitted by the Pooled Funds in accordance with their policies.

SECTION VII – VOTING RIGHTS

- 7.1 The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Manager, who shall at all times act prudently and in the best interests of the Fund's beneficiaries. The Manager shall provide a copy of their voting rights policy to the Committee.

SECTION VIII – VALUATION OF INVESTMENTS

- 8.1 Investment in publicly traded securities shall be valued by the Custodian for the Fund no less frequently than monthly at their market value.
- 8.2 Investment in Pooled Funds comprising publicly traded securities shall be valued according to the unit values calculated at least monthly by the custodian of the Pooled Funds. The Custodian shall be responsible for requesting and recording the unit values on a monthly basis.
- 8.3 If a market valuation of an investment is not readily available, then a fair value shall be determined by the Custodian. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as risk-adjusted discounted cash flows or comparison with similar assets which are publicly traded. In all cases the methodology should be applied consistently over time.

SECTION IX – RELATED PARTIES AND CONFLICTS OF INTEREST

9.1 Definition

For the purposes of this Policy, a Related Party means:

- (a) The Council,
- (b) A member of the Committee,
- (c) An officer, director or employee of KFN,
- (d) A person responsible for investing the assets of the Fund, or any officer, director or employee thereof.
- (e) A person identified in section 2.(3) of the Schedule - K'ómoks First Nation Conflict of Interest Policy of the K'ómoks First Nation Financial Administration Law.

9.2 Related Party Transactions

The following related party transactions are permitted for the Fund:

- (a) Any transaction that is for the operation or administration of the Fund, does not involve the making of loans to, or investment in, the related party, and the terms and conditions of which are not less favourable to the Fund than market terms and conditions;
- (b) Any transaction the value of which is nominal or immaterial to the Fund (that is, less than 0.1% of the market value of the Fund) or the terms and conditions of the transaction are not less favourable to the Fund than market terms and conditions; two or more transactions with the same related party shall be considered a single transaction; and

- (c) Investments in the securities of a related party are done on an indirect basis, to the extent permitted by applicable legislation.

9.3 Conflicts of Interest

- (a) If a member of the Committee, or any agent of or advisor to the Committee, or any person employed in the administration of the Fund has or acquires any material interest, direct or indirect, in any matter in which the Fund is concerned or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Fund, the person involved shall as soon as practicable disclose this conflict of interest to the Chair of the Committee. The Chair shall then immediately advise all members of the Committee, and the Committee shall decide upon a course of action. Any such person will thereafter abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining members of the Committee.
- (b) Every disclosure of interest under this Section shall be recorded in the minutes of the relevant Committee meeting.
- (c) The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract or other matter.
- (d) The Committee shall satisfy itself that an appropriate policy regarding conflicts of interest exists and is followed by any Manager appointed by the Committee. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute shall be expected to apply to such Manager.
- (e) The provisions of the "Schedule - K'ómoks First Nation Conflict of Interest Policy" of the K'ómoks First Nation Financial Administration Law apply to this policy.

SECTION X – MONITORING INVESTMENT PERFORMANCE

- 10.1 The Committee shall review on a regular basis, as needed, and at least once a year:
- (a) The assets and net cash flow of the Fund,
 - (b) The current asset mix of the Fund,
 - (c) Statistics on the investment performance of the Fund,
 - (d) Portfolio holdings,
 - (e) The fees and expenses incurred in managing the Fund.
- 10.2 The Committee shall meet at least once a year with the Consultant/Advisor to discuss investment performance, investment strategies, expected future performance and any changes in the Manager's organization, investment processes and professional staff.
- 10.3 The primary focus of performance assessment will normally be on a moving four-year basis, but performance over shorter time periods and the Manager's performance for other comparable accounts prior to appointment for the Fund may also be considered. The Manager will not necessarily be faulted for underperforming the agreed standard over short time periods. However, the Committee may conclude that significant short-term under performance renders it unlikely that the performance standard can reasonably be achieved at an appropriate risk level over the remainder of a market cycle.

10.4 The Committee shall from time to time determine whether any or all of the Managers should be replaced. Although not limited to the reasons set out below, the Committee may replace a Manager due to:

- a) Failure by a Manager to meet the performance targets,
- b) A change in a Manager's ownership or key personnel,
- c) A desire to change the investment management structure,
- d) A failure to satisfy the requirements of the investment policy of the Fund and this Statement,
- e) A change in a Manager's investment process or style,
- f) An increase in investment management fees.

SECTION XI – POLICY REVIEW

11.1 This Policy shall be reviewed at least annually in order to determine whether any modifications are necessary or desirable. Such review shall consider whether there has been:

- (a) Significant revisions to the expected long-term trade-off between risk and reward on key asset classes;
- (b) A significant shift in the financial risk tolerance of the KFN;
- (c) Shortcomings of the Policy that emerge in its practical operation,
- (d) Significant recommendations by the Investment Advisor or the Manager; and
- (e) Changes in applicable regulations and/or legislation.