

Appendix E

Investment Policy Statement

Sample Only

This Investment Policy Statement is for example purposes only. The information used to generate this document was not comprehensive enough for it to be considered a complete or thorough Investment Policy Statement. Its purpose is to be used as a starting point to facilitate in the construction of a complete Statement.

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EXECUTIVE SUMMARY

Purpose of Funds: The funds are to be used as a perpetual endowment.

Initial Assets: \$500,000,000 (approximation)

Time Horizon: Perpetuity

Expected Return: 7.5 percent (5.5 percent over CPI).

Risk Tolerance: Medium. Returns should not be negative for more than three years, based on a statistical confidence level of 90 percent.

Asset Allocation:	Cash & Equivalents	0-5%
	Canadian Fixed Income	35-45 %
	Canadian Equity	55-65%
	U.S. Equity	0%
	International Equity	0%

Benchmarks:	Cash & Equivalents	ScotiaMcLeod 91-day T-bill index.
	Canadian Fixed Income	ScotiaMcLeod Long Bond Index.
	Canadian Equity	TSE 300
	U.S. Equity	-
	International Equity	-

PURPOSE

The purpose of this investment policy statement (IPS) is to act as a guideline for the organization's Board of Directors (Board) to effectively supervise, monitor, and evaluate the investment management of the Fund. The investment policy is defined in this document by:

- Stating in writing, the Board's beliefs, views, expectations and objectives of the investment management process with regards to the investment of all Fund assets.
- Defining and stating the structure of the investment process for the management of the Fund assets. This structure includes, but is not limited by, the identification of expected risks, returns, costs and constraints, segmentation by asset classes, strategic asset allocation, level of active management and investment management styles, that, in total, are expected to produce a sufficient level of overall risk and return to meet as a minimum the core fund objectives.
- Providing restrictions and guidelines, both mandatory and recommended, such that appropriate controls are in place to manage the risks in each investment portfolio and the entire Fund, ensuring that all Fund assets are managed in accordance with stated objectives.
- Describing the duties and responsibilities of the Board, the investment management team and the investment consultant in the management of fund assets, and encouraging effective communication between these parties.
- Stating the criteria used to monitor, evaluate, and compare the performance results achieved by the investment team on a regular basis.
- Complying with all fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules, and regulations that may impact the Fund assets.

This IPS has been formulated based on consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

STATEMENT OF OBJECTIVES

The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

- Objective #1:** To preserve the purchasing power of the organization's assets into perpetuity.
- Objective #2:** To provide a spending rate of 5.5% above the rate of inflation.
- Objective #3:** To exceed expected earnings assumptions.

GUIDELINES AND INVESTMENT POLICY

PERFORMANCE EXPECTATIONS

The desired investment return is a long-term rate of return on assets that is at least 7.5 percent, which is 5.5 percent greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Fund is based on the assumption that future real returns will approximate the long-term real rate of returns experienced for each asset class in the IPS.

The Board realizes that the primary determinants of performance are the strategic decisions of asset allocation and strategic rebalancing. Therefore, strategic performance will be evaluated based on Benchmark selection and strategic rebalancing, and tactical performance will be evaluated with respect to the Benchmark.

The Board realizes that market performance varies and that a 7.5 percent rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks are set forth in the “Control Procedures” and “Strategic Asset Allocation” sections.

Over a complete business cycle, the Fund’s overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as transaction costs, should perform above the customized index comprised of market indexes weighted by the strategic asset allocation of the Fund.

RISK TOLERANCES

The Board recognizes the difficulty of achieving the Fund’s investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the Fund’s long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability was considered. These factors were:

- The likelihood of negative market returns over a significant period.
- The significant reserves which the organization has available to manage periods of poor market returns.

LIQUIDITY

There is a requirement to maintain sufficient liquid reserves to provide for distributions in a given year. Since these distributions are highly predictable, the organization should not pay for a liquidity premium in its portfolio. At the same time, liquidity for each security should be such that a fair market price can be determined for it on any given business day. Therefore, the organization must hold assets which can be sold at fair market value over a reasonable period (three months). Such assets would not include real estate, venture capital, equity in non publicly traded corporations, illiquid exchange traded securities such as large holdings of small capitalized or closely held equity and illiquid over-the-counter securities. Counter party agreements such as swap contracts and other derivative instruments should not be held.

INVESTMENT HORIZON

Since the purpose of the Fund is to supply steady cash flows to beneficiaries to perpetuity, the investment horizon is very long term. The Fund must also balance its long term mandate against short term spending needs. Therefore, a prudent investment horizon should be at least five years.

TAXES

Being a charitable foundation, the organization is not taxed on the earnings from Canadian investments. Since pre-tax returns are equivalent to after-tax returns, strategies can be based on total return forecasts.

REGULATORY AND LEGAL CONSIDERATIONS

The investment constraints faced by the organization are not applicable.

UNIQUE PREFERENCES

Given the nature of organization's mission the organization provides financial support to health and environmental organizations, investments which the Board believes have an ethical or moral conflict with these organizations will be avoided.

ASSET ALLOCATION CONSTRAINTS

The Board believes that the Fund's risk and liquidity posture are, in large part, a function of the asset class mix. The Board has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. Based on the Fund's time horizon, risk tolerances, performance expectations, asset class preferences and the investment constraints as stated in organization's incorporating act, an efficient or optimal portfolio was identified.

STRATEGIC ASSET ALLOCATION

Based upon the asset allocation constraints, the strategic asset allocation of the Fund is 40% Fixed Income and 60% Canadian Equity.

- Return: Return should match or exceed a composite benchmark.
- Risk: The assets selected must have return volatilities such that the portfolio does not have negative returns over a three year period, at a 90% confidence interval.
- Liquidity: At a level such that any asset may be sold within three months. A premium should not be paid for higher liquidity.
- Horizon: Investment horizon greater than five years.
- Benchmark: The composite benchmark is weighted average of 40% ScotiaMcLeod Long Index, and 60% TSE 300.

Asset Allocation

Asset Class	Portfolio Holdings
Canadian Fixed Income, Cash & Equivalents	40%
Canadian Equity	60%
Foreign Fixed Income	0%
Foreign Equity	0%

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary within the bounds set above, depending on market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Insurance Fund. If there are no cash flows, the allocation of the Insurance Fund will be reviewed quarterly. If the Board judges cash flows to be insufficient to bring the Insurance Fund within the strategic allocation ranges, the Board shall decide whether to effect transactions to bring the strategic allocation within those ranges.

Active / Passive Management

The Board believes that the decision to select active or passive management for a given portfolio is dependent upon the efficiency of the market of the asset classes in which that portfolio is investing. The Board recognizes that there are varying degrees of passive and active management passive management approach will be adopted within the guidelines and constraints stated in this IPS for the fixed income and large capitalized Canadian equity components of the Fund. The small and mid capitalized Canadian equity components, real estate and non-Canadian assets will be managed actively.

CONTROL PROCEDURES

Committees

Strategic Committee

Members:

Name:	Position:

Duties and Responsibilities of the Strategic Committee.

The duties and responsibilities of the Strategic Committee include:

- 1) Approval of investment policy and guidelines:
 - Asset allocation
 - Rebalancing strategy
 - Benchmark selection
 - Annual Review
 - Strategic Rebalancing
 - Future Strategic Concerns
- 2) Monitoring investment policy and guidelines, ensuring that they are followed.
- 3) The committee must approve any changes to those policies and guidelines.

Tactical Committee

Members:

Name:	Position:

Duties and Responsibilities of the Tactical Committee.

The duties and responsibilities of the Tactical Committee include:

- 1) Implementation of investment policy and guidelines, including:
 - Recommending asset allocation
 - Recommending a rebalancing strategy
 - Recommending appropriate benchmarks
 - Review on a quarterly basis
 - Tactical and strategic rebalancing
 - Analyzing future strategic and tactical concerns
- 2) Reporting and interpreting asset/liability and economic forecasts to the Strategic Committee and recommending any changes in the policy or guidelines.
- 3) Ensuring that policy and strategies are appropriately implemented.
- 4) Monitoring trading and execution activity.
- 5) Managing the Fund assets under its care, custody, and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Board.
- 6) Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
- 7) Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
 - a. Investment strategy.
 - b. Portfolio structure.
 - c. Tactical approaches.
 - d. Ownership.
 - e. Organizational structure.
 - f. Professional staff.
 - g. Investment consultants.
 - h. Recommendations for guideline changes.
 - i. All legal material and regulatory agency proceedings affecting the corporation.
- 8) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. The committee shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

9) Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in all activities for like funds with like aims and circumstances in accordance and compliance with all applicable laws, rules, and regulations from local, provincial, federal, and international political entities as they pertain to fiduciary duties and responsibilities.

10) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

Reporting

Monthly Report

The investment consultant will submit an appraisal report that shows the portfolio's current holdings and market value. The appraisal will be reviewed by the Strategic and Tactical Committees to ensure that the stated investment strategy is being adhered to, and that the implementation of the strategy is consistent with the objectives and guidelines of the IPS. The Tactical Committee will finalize strategies for handling scheduled contributions and disbursements for the upcoming months.

Quarterly Report

The investment consultant will prepare a performance measurement report on a quarterly basis. The Strategic and Tactical Committees will review the report to ensure that assets are allocated according to the IPS, and to compare performance of the overall portfolio to the weighted benchmarks.

Annual Report

The annual report is generated by the investment consultant for review by the Strategic and Tactical Committees to ensuring funding objectives are being met. The Strategic and Tactical Committees will review the report to ensure that assets are allocated according to the IPS, and to compare performance of the overall portfolio to the weighted benchmarks. The IPS will be revised if there are any material changes to the investor's risk tolerance, expected or desired rate of return, asset class preference, or time horizon to major disbursements.

On an As-Needed Basis

The Strategic and Tactical Committees will meet if there are any unexpected and material changes of the organization's present or expected cash needs, and/or any other event that materially impacts either committee's ability to carry out their fiduciary duties.

Reporting any Perceived Impropriety

If material deviations from the Investment Policy Statement occur an information circular will be sent to the chairperson of the Tactical Committee.

ACTUARIAL POLICY

All major liability assumptions will be subject to an annual review by the Board. This review will focus on analysis of major differences between the assumptions used in setting the IPS and actual experience.

PERFORMANCE OBJECTIVES

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. It is not expected that the IPS will change frequently. In particular, short term changes in the financial markets should not require adjustments to the IPS.

SECURITIES GUIDELINES & RESTRICTIONS

Every manager of Fund assets, whether they are employees of the organization or are external managers, must adhere to these guidelines.

The following securities and transactions are not authorized unless receiving prior Board approval:

1. Letter stock and other unregistered securities, commodities or other commodity contracts, and short sales or margin transactions.
2. Securities lending, pledging, or hypothecating securities.
3. Investments in the equity securities of any company with a record of less than three years' of continuous operation, including the operation of any predecessor, and investments for the purpose of exercising control of management are all restricted.

Domestic Equities

- Equity holdings in any one company shall not exceed the benchmark weighting of that company by more than 5 percent of the portfolio's market value.
- Equity holdings in any one industry category shall not exceed the benchmark weighting of that industry category by more than 10 percent of the portfolio's market value.
- Managers shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, manager performance will be based on the total funds under their direct management.
- Holdings of individual securities shall be large enough (round lots) and traded frequently enough for easy liquidation.
- Holdings of individual securities shall not exceed three days of annual average trading volume on that security.

Domestic Fixed Income

- All fixed income securities held in the portfolio shall have a DBRS, CBRS, Moody's or Standard & Poor's credit quality rating of no less than "BBB". Unrated securities from Canadian governments and their agencies, are qualified for inclusion in the portfolio.
- No more than 20 percent of the market value of the fixed income portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization and that authorization is included in this IPS.
- The exposure of the portfolio to any one issuer, other than securities of Canadian Governments or their agencies, shall not exceed 10 percent of the market value of the fixed income portfolio.
- Holdings of individual issues shall be large enough (round lots) for easy liquidation.

International Equities

- Equity holdings in any one company shall not exceed the benchmark weighting of that company by more than 5 percent of the international equity portfolio's market value.
- Equity holdings in any one industry category shall not exceed the benchmark weighting of that industry category by more than 15 percent of the international equity portfolio's market value.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- Allocations to any specific country shall not exceed the benchmark weighting of that country by more than 20 percent of the international equity portfolio's market value.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

Cash/Cash Equivalents

- Cash equivalent reserves shall consist of cash instruments having a quality rating of R-1 or higher. Eurodollar certificates of deposit, time deposits, and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the investment managers shall be invested daily through an automatic interest-bearing sweep vehicle managed by the custodian.

The investment policy constraints are described in the following table:

Investment Policy Constraints

Asset Allocation Portfolio General Guidelines	General Guidelines	Restriction Type
Cash & Equivalents	0 – 20%	Mandatory
Canadian Fixed Income	40-70%	Mandatory

Canadian Equity	20-40%	Mandatory
Foreign Fixed Income	0%	Mandatory
Foreign Equity	0%	Mandatory

By Asset Class Portfolio Benchmark Guidelines	Portfolio Range vs. Benchmark	Restriction Type
<u>Fixed Income & Cash Equivalents</u>		
Duration	± 1.0	Mandatory
Convexity	± 0.3	Mandatory
<u>Equity</u>		
Tracking Error	± 4.0	Mandatory
Other Securities	-	-

By Asset Type - Fixed Income Portfolio General Guidelines	General Guidelines	Restriction Type
Cash & Equivalents	0 – 20%	Recommended
Canada	0 – 50%	Recommended
British Columbia	20 – 50%	Recommended
Other Provincial	0 – 25%	Recommended
Municipal	0 – 10%	Recommended
Corporate (Financial Institutions)	0 – 15%	Recommended
Corporate (Non Financial Inst.)	0 – 15%	Recommended

Selection of Active Money Managers

The Board will decide the asset allocation strategy and will determine which portfolios, if any, require active management. For actively managed portfolios, the Board, with the assistance of the Consultant, will select appropriate money managers. Managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Office of the Superintendent of Financial Institutions and the Investment Dealers Association.
2. Provide historical performance numbers in compliance with the AIMR (Association for Investment Management and Research) Performance Presentation Standards Requirements and Mandatory Disclosures. The Board may require compliance with some of the AIMR Performance Presentation Standards Recommended Guidelines and Disclosures where appropriate.
3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
5. Clearly articulate the investment strategy that will be followed and demonstrate that similar strategies have been successfully adhered to over time.
6. Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively on the firm.

The Board recognizes that past performance is of limited value in determining future performance.

Monitoring of Active Money Managers

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there is likely to be short-term periods during which performance deviates from market indices. The IPS sets limitations on performance deviation and types of assets in which a money manager may invest. The manager will be monitored on compliance with these limitations and restrictions. In the event that performance or asset types lie outside these limits and restrictions, the Board may take action, including but not limited by the immediate cancellation of the manager's services.

On a timely basis, but not less than four times per year, the Board will meet to focus on:

- Manager's adherence to the IPS guidelines.
- Material changes in the manager's organization, investment philosophy, and/or personnel.
- Comparisons of the manager's results to appropriate indices and peer groups, specifically:

Asset Category	Index	Peer Group Universe
<u>Equity:</u>		
Domestic Large Cap.	TSE 300	Total Equity Database
Value	TSE 300	Value Equity Style
Yield	TSE 300	Yield Equity Style
Growth	TSE 300	Growth Equity Style
Core	TSE 300	Core Equity Style
Domestic Small Cap.	Customized	Small Capitalization Style
International Equity: X-US	MSCI EAFE	International Equity
<u>Fixed Income:</u>		
Short Term Fixed Income	ScotiaMcLeod Short Index	
Mid Term Fixed Income	ScotiaMcLeod Mid Index	
Long Term Fixed Income	ScotiaMcLeod Long Index	
General Fixed Income	ScotiaMcLeod Universe	Fixed Income
High Yield	ScotiaMcLeod High Yield	
International Fixed Income	Solomon Brothers World	International Fixed Income

The risk associated with each manager's portfolio is measured by the variability of monthly returns with respect to the stated benchmark. For equity portfolios, this variability is calculated as a monthly standard deviation and converted into an annualized tracking error. For fixed income portfolios risk is calculated using a combination of duration, credit, and cash flow measures. The risk boundaries for each asset class are listed in the Investment Policy Constraints. Additional restrictions will be set at the time of manager selection.

The Board recognizes that performance may deviate for short-term periods. In the event that performance deviates by two or more quarters from the limits set above, the Board will review the manager's performance and require a written explanation by the manager for the deviation.

In addition to the information covered during the quarterly reviews, the Board will meet at least annually to focus on:

- Each manager's performance relative to their benchmark. The risk associated with each manager's portfolio should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.
- Each manager's performance relative to managers of like investment style or strategy. Each manager is expected to perform in the upper half of the manager's expected style universe.
- Portfolio investment performance results compared to the manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the portfolio's actual results.

The Board is aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process.

Accordingly, a thorough review and analysis of a money manager will be conducted if:

- The manager invests in assets outside of the boundaries set down in the IPS.
- A portfolio's risk exceeds two times the tracking error for a quarter.
- A portfolio performs in the bottom quartile (75th percentile) of its peer group over an annual period.
- A portfolio falls in the bottom right quadrant of the risk/return scattergram for three year time periods.
- A portfolio has a three year risk adjusted return fall below that of the median portfolio within the appropriate peer group.

Furthermore, performance that may require the replacement of a manager includes:

- A manager that consistently performs below the median (50th percentile) of his or her peer group over rolling three-year periods.
- A manager that performs below the median (50th percentile) of his or her peer group over a three-year period.
- A manager with a negative alpha for a three year time period.
- A manager with a negative information ratio.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals.
- Significant account losses.
- Significant growth of new business.
- Change in ownership.

Unprofessional activities by the manager or employees of the manager who may have direct influence on the management of Fund assets, will warrant immediate review by the Board. Unprofessional activities include but are not limited by violations of the criminal code, or the rules and regulations set by a government regulatory body or an industry self regulating organization. Publicly announced investigations by said bodies will also warrant immediate review of the manager by the Board.

The performance of the Board's investment managers will be monitored on an ongoing basis, and it is at the Board's discretion to, upon written notice, replace a manager at any time.