

# **STATEMENT OF INVESTMENT POLICIES AND PROCEDURES**

**QAMES ʔƏMS TALA SETTLEMENT TRUST**

**Capital Transfer Fund**

**December 2016**

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## **1. INTRODUCTION**

The Qames ʔams tala Settlement Trust (the “Trust”) was created by the Tla’amin Government as per Section 87 of the Constitution of the Tla’amin Nation (the “Constitution”) to preserve and protect the Tla’amin capital transfer and amounts received under the Resource Revenue Sharing Chapter of the Tla’amin Final Agreement and the income derived from the investment of those amounts. The Trust was established pursuant to the terms of a trust deed dated April 5, 2016 (the “Trust Deed”) between the Tla’amin Nation as represented by the Tla’amin Government (the “Settlor”), the Initial Trustees, and the Guardian.

The Trustees will hold the assets of the Trust (the “Trust Property”) in trust in accordance with the Trust Deed for both the long and short term benefit of one or more Beneficiaries. The purpose of the Trust is to provide for the management, investment and disbursement of the Trust Property to that end.

## **2. PURPOSE**

This Statement of Investment Policies and Procedures (the “Policy”) reflects the investment policies, objectives and constraints for the management and oversight of the Trust Property, excluding Capital in the Economic Development Fund, and is set forth in order to:

- a) Define and assign the delegated authorities and responsibilities of all involved parties;
- b) Establish a clear understanding of the investment goals and risk management objectives for investing the Trust Property;
- c) Offer guidance and assistance to the Investment Manager(s) regarding the investment of the Trust Property;
- d) Establish a basis for evaluating the Trust Property’s performance and results relative to established total fund and asset class benchmarks;
- e) Outline the philosophy and attitude that will guide the Trustees and Investment Manager(s) towards the desired results; and
- f) Manage the Trust Property according to prudent standards as established in common trust law.

The policy is subject to the provisions of the Trust Deed and in the event of a conflict or inconsistency, the Trust Deed shall prevail. For definitions of capitalized terms relating to the Trust, refer to the Trust Deed.

## **3. RESPONSIBILITIES**

### **3.1 Responsibilities of the Trustees**

In addition to the Trustees’ responsibilities set out in Part 12 of the Trust Deed, the Trustees’ responsibilities with respect to the investment of the Trust include:

- (a) Review this Policy, in consultation with the Guardian, at least once a year, and also whenever required by a major change such as:

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- (i) significant revisions to the expected long-term trade-off between risk and reward on key asset classes, normally dependent upon basic economic, political, and social factors;
  - (ii) a significant change in the financial risk tolerance of the Trust;
  - (iii) shortcomings of the Policy that emerge in its practical application, or substantive modifications that are recommended to the Trust;
  - (iv) changes in applicable legislation; or
  - (v) a request by the Settlor or the Guardian on behalf of the Beneficiaries;
- (b) Finalize and implement amendments or changes to this Policy that are substantive in nature, but only after approval by the Tla'amin Community Trust Meeting and the Guardian;
- (c) Provide the most recent version of the Policy to the Settlor, the Guardian and the Investment Manager(s);
- (d) Determine the Trust's risk tolerance, and communicate these matters to the appropriate parties;
- (e) Establishing reasonable and consistent investment objectives, policies and guidelines in order to direct the investment of the Trust Property;
- (f) Invest the Trust Property in any Authorized Investment which they consider advisable;
- (g) Appoint, change and terminate the services of one or more Financial Advisors to advise with respect to the investment of all or any part of the Trust Property;
- (h) Appoint, change and terminate Investment Manager(s) to manage the Trust Property, including entering into investment management or subscription agreements with the Investment Manager(s);
- (i) Developing a set of guidelines acceptable to each Investment Manager within which that Investment Manager is expected to operate, including discretion limits, diversification, quality standards and performance expectations;
- (j) Evaluating the performance of the Investment Manager(s) to assure adherence to the Policy guidelines and monitor progress towards the Trust's investment objectives;
- (k) Ensure that all expenses and fees incurred by third party agents are customary and reasonable; and
- (l) Appoint and terminate agents and/or employees to assist in carrying out these responsibilities, provided that reasonable care is used in appointing and supervising such agents and employees.

### 3.2 Responsibilities of the Guardian

In addition to the Guardian's responsibilities set out in Section 14.5 of the Trust Deed, the Guardian's responsibilities with respect to the Trust include:

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- (a) Approve the disbursement of Capital (except for Capital in the Economic Development Fund) prior to the fifth (5<sup>th</sup>) anniversary of the Settlement Date;
- (b) Approve the disbursement of Capital (except for Capital in the Economic Development Fund) that exceeds, within each consecutive ten (10) year period following the fifth anniversary of the Settlement Date, an aggregate of ten percent (10%) of the Indexed Value of the Capital; and
- (c) Approval proposed amendments or changes to the Policy that are substantive in nature.

### 3.3 Responsibilities of the Financial Advisor

The Financial Advisor's responsibilities with respect to the Trust include:

- (a) Advise and participate on the development and subsequent reviews of the Policy;
- (b) Provide the Trustees with the information necessary for the review of the Policy;
- (c) Advise and participate with the Trustees in the review of the planned investment strategies;
- (d) Advise on the selection of Investment Managers;
- (e) Evaluate the performance of the Investment Manager(s), and provide support to the Trustees in their qualitative and quantitative review and ongoing monitoring of the performance of the Investment Manager(s); and
- (f) Ensure some of its staff assigned to the Trust have been awarded the Chartered Financial Analyst designation by the Chartered Financial Analyst Institute, and notify the Trustees immediately in writing if none of its staff assigned to the Trust have been awarded the designation, and detail a timeframe of when the situation will be remedied.

### 3.4 Responsibilities of the Investment Manager(s)

The responsibilities of the Investment Manager(s) with respect to the Trust Property include:

- (a) Invest the Trust Property in accordance with the Policy, or if the Trust Property is invested in pooled funds, the Investment Manager(s) shall adhere to the respective investment policies that govern pooled funds in addition to the Policy. In case of conflict, the Investment Manager(s) must obtain approval from the Trustees prior to investing in the pooled fund, and provide at least annually a copy of any pooled fund investment policy in which the Trust Property is invested. The Investment Manager(s) shall advise the Trustees of changes to investment policies that govern the pooled funds;
- (b) Within the specific guidelines outlined in this Policy, the Investment Manager(s) may exercise full investment discretion, provided they exercise the care, skill and diligence that a prudent investor would in similar circumstances;
- (c) Notify the Trustees of any significant changes in the Investment Manager's organization, philosophy, procedures or personnel;

- (d) Prepare a quarterly report on the Trust Property's performance;
- (e) Meet semi-annually or as required with the Trustees to review the Trust Property's performance;
- (f) Rebalance its mandate to comply with the Asset Allocation Limits;
- (g) Comply with the specific Investment Manager Performance Objectives and Reporting Responsibilities as set out in Appendix B; and
- (h) Comply with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

#### **4. INVESTMENT POLICY**

##### **4.1 Investment Objectives**

The investment objective of the Trust is to obtain an investment return sufficient to cover disbursements, expenses, and maintain the real purchasing power of the Trust Property, while exposing the Trust Property only to such risk as is consistent with that investment return.

The stated objective is to earn over the long term a return over inflation of 4% per annum, net of investment fees and expenses.

##### **4.2 Investment Philosophy**

The Trustees have consulted with the Guardian in developing the following philosophy with respect to investments that have been considered in developing the investment policy:

- (a) Investment policies and processes should be consistent with the nature of the Trust's commitments and should consider the best interests of the Beneficiaries;
- (b) Asset allocation, that is, the long term split of the Trust Property among equity, fixed income and other asset classes, is the most important determining factor in the investment performance of the Trust Property;
- (c) In the long term, equities will outperform bonds to compensate for their higher risk;
- (d) Diversification offers the opportunity to improve risk-adjusted returns;
- (e) Holding investments in foreign currency is a form of diversification and, accordingly, foreign currency exposures will not be hedged unless there is investment rationale for doing so;
- (f) Achieving investment returns sufficient to meet the long-term investment objectives of the Trust generally requires assuming risk, meaning not only the volatility of investment returns, but a chance of not meeting the investment objectives and goals set for the Trust Property;
- (g) There is not a preference between active versus passive investment management strategies, provided that an active investment management strategy can outperform its benchmark by a margin at least equal to its investment management fees; and

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- (h) Effective implementation strategies, such as manager structure, selection, monitoring and change, can improve the net returns and risk profile of the portfolio.

### 4.3 Investment Manager Mandate and Performance Objectives

The investment mandate and performance objective for the Investment Manager(s) are shown in Appendix A.

### 4.4 Asset Allocation

The Trust Property shall be invested in equity, fixed income and other investments which shall seek to:

- (a) generate a consistent flow of investment income;
- (b) enhance the expected long term investment return;
- (c) protect against unanticipated inflation; and
- (d) provide diversification.

### 4.5 Asset Allocation Limits

The following limits shall apply to the Investment Manager(s) in aggregate:

	<b>as a percentage of the market value of the Trust Property</b>		
<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Cash &amp; Cash Equivalents</b>	0	0	10
<b>Fixed Income</b>	25	40	55
<b>Equity</b>	45	60	75
Canadian Equity	10	20	30
Global Equity	20	40	60

These limits have been determined by the Trustees to meet the Trust Property's investment objectives and shall be reviewed by the Trustees from time-to-time as is appropriate. The minimum and maximum allocations take into account acceptable asset mix drift and provide for the opportunity to exploit tactical asset allocation. Any changes to these limits should be based on a careful review of the Trust Property and its objectives.

### 4.6 Authorized Investments

Subject to Section 10.1 of the Trust Deed, the Trustees may invest in any of the qualified investments of the following investment categories, through purchase of securities or units of pooled funds:

- (a) Equities traded on recognized market exchanges:
  - (i) common and preferred stocks;

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- (ii) income trust units;
  - (iii) real estate investment trust units (REITs);
  - (iv) convertible preferred stocks;
  - (v) convertible debt securities;
  - (vi) warrants or rights on common or preferred stocks;
  - (vii) American or Global Depository Receipts and Installment Receipts; and
  - (viii) Exchange Traded Funds (ETFs).
- (b) Fixed income:
- (i) bonds, debentures, notes and non-convertible preferred stocks;
  - (ii) mortgages;
  - (iii) mortgage-backed and asset-backed securities;
  - (iv) term deposits and guaranteed income certificates; and
  - (v) contracts with life insurance companies.
- (c) Cash or equivalents:
- (i) cash;
  - (ii) demand or term deposits;
  - (iii) treasury bills; and
  - (iv) commercial papers or bankers' acceptances.
- (d) Other:
- (i) other investments are permissible if eligible under Section 10.1 of the Trust Deed; and
  - (ii) derivative instruments in accordance with section 4.9.

### 4.7 Equity Requirements

The equity securities should:

- (a) No single entity's equity securities, including those of its subsidiaries, may be greater than 10% of the market value of the portion of the Trust Property invested in equities.

### 4.8 Fixed Income Quality Requirements

The fixed income securities should meet the following minimum quality rates from a recognized bond rating agency:

- (b) "A" or equivalent rate for individual bonds and debentures, with the exception that up to 20% of bond holdings can be held in "BBB" or equivalent;
- (c) "R-1" or equivalent rate for short-term investments; and
- (d) "P-3" or equivalent rate for preferred shares.

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### 4.9 Derivatives

The Trust Property's use of derivatives strategies is restricted to financial instruments as rights, warrants, forwards and futures only within a pooled fund, subject to Section 10.1(a) of the Trust Deed, for the exclusive purpose of controlling risk or currency fluctuations, but not in a way that is destined to exploit financial leverage.

### 4.10 Quantity Restrictions

Holdings of equities and fixed income securities in any single corporation shall not represent more than 10% of the total market value of the equity portfolio or fixed income portfolio respectively.

The Trust Property shall not hold more than 30% of the voting rights of any corporation, including its subsidiaries. Where the Trust Property invests in both the stock and the debt of any corporation, including subsidiaries, it shall not hold more than 30% in aggregate of the corporation, including its subsidiaries, including both stocks and debt instruments.

No more than 10% of the total market value of the Trust Property shall be invested in any fixed income security that is not guaranteed by the Government of Canada or the government of a Canadian province or territory.

No more than 10% of the fixed income portion of the Trust Property may be invested in non-Canadian dollar denominated bonds.

### 4.11 Liquidity of Investments

Equity and fixed income investments of the Trust Property should be invested in marketable securities with a high liquidity. Mortgage and real estate investments by their nature are less liquid. Any pooled funds utilized must be valued according to unit values published at least monthly.

### 4.12 Pooled Fund Investment Policy

The Trust Property is also governed by the following Investment Policies:

- Addenda Canadian Equity Pooled Fund
- Addenda Global Equity Pooled Fund
- Addenda Bond Universe Core Pooled Fund
- Addenda Commercial Mortgages Pooled Fund

These Investment Policies would take precedence should any conflict arise between the Policy and said Investment Policies.

## **5. ADMINISTRATION**

### 5.1 Voting Rights

The Investment Managers are delegated the voting rights for all securities held under the Trust subject to the Trustees exercising their right at any time to give direction to the Investment Managers with respect to the voting on any specific situations. This is not applicable if securities are held within a pooled fund. The Investment Managers are required to advise the Trustee in

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advance of any such situations but shall keep the Beneficiaries informed of any pending voting which may have a significant impact on the Trust. Any voting rights exercised by the Investment Managers shall be in the best interests of the Beneficiaries of the Trust and, where applicable, comply with the Policy.

### **5.2 Investments Not Regularly Traded**

Should an Investment Manager invest in any securities wherein the market value is not readily available, the Investment Manager will present the method to be employed in establishing the market value for approval by the Trustees.

### **5.3 Incorporating the Policy into Investment Management Agreements**

The investment and reporting guidelines of this Policy shall be incorporated into the investment management agreements that the Trustees enters into with the Investment Manager(s).

### **5.4 Conflicts of Interest**

The Trustees, Guardian, Financial Advisor, agents, advisors, and Investment Managers whose services are retained by the Trust are all fiduciaries and, as such, subject to the following guidelines:

- a) Fiduciaries shall not knowingly permit their interests to conflict with the duties and powers with respect to the Trust Property;
- b) A conflict of interest is deemed to exist when private or corporate interests are of sufficient substance and proximity to their duties and powers with respect to the Trust to impair their ability to render unbiased advice or make unbiased decisions affect the Trust Property;
- c) A fiduciary that wishes to make a recommendation or take action with respect to the investment of the Trust Property must disclose actual or perceived conflicts of interest in writing as soon as possible, along with all relevant details to the Trustees;
- d) While all circumstances giving rise to possible conflicts of interest cannot be identified, fiduciaries shall disclose, among other things:
  - i. Material beneficial ownership of investments, which the Trust may be considering purchasing, or divesting;
  - ii. Compensation received from any persons or corporations other than one's employer, and in particular, from the issuer or vendor of securities which the Trust owns or may be considering purchasing;
  - iii. Consideration received, paid or granted to others for making a particular recommendation relating to the investment of the Trust Property.

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This Policy is adopted on \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Lenora Ann Dickey  
Trustee

\_\_\_\_\_  
Alexander Hugenschmidt  
Trustee

\_\_\_\_\_  
Ann Laura Paul  
Trustee

\_\_\_\_\_  
Alisha Dorian Point  
Trustee

\_\_\_\_\_  
Kristi Marie Thiele  
Trustee

**APPENDIX A – INVESTMENT MANAGER MANDATES**

**Canadian Equity Fund Mandate**

Manager

Addenda Capital

Fund

Addenda Canadian Equity Pooled Fund

Benchmark (before investment management fees)

100% S&P/TSX Composite Index

Performance Standard

Benchmark + 1.50% (over full market cycle)

**Global Equity Fund Mandate**

Manager

Addenda Capital

Fund

Addenda Global Equity Pooled Fund

Benchmark (before investment management fees)

100% MSCI World Index (CAD, Net)

Performance Standard

Benchmark + 2.00% (over full market cycle)

**Fixed Income Mandate**

Manager

Addenda Capital

Funds

Addenda Bonds Universe Core Pooled Fund

Addenda Commercial Mortgages Pooled Fund

Benchmark (before investment management fees)

100% FTSE TMX Universe Bond Index

Performance Standard

Benchmark + 0.35% (over four year period)

**APPENDIX B – PERFORMANCE OBJECTIVES AND REPORTING RESPONSIBILITIES**

**1. PERFORMANCE OBJECTIVES**

- 1.1 Performance Standards: The Investment Manager(s) will be expected to meet the performance standards over completed market cycles
- 1.2 The primary focus of performance measurement will be on a moving four-year average result, however, performance will also be evaluated in terms of the deviation of the actual return from the performance standard over a variety of time intervals. Results consistently below the performance standard will require detailed explanation by the Investment Manager(s).
- 1.3 Peer Group Comparison: The Investment Manager(s) will be expected to achieve a moving four-year average return that is above the median return achieved by its peer group, as measured by an appropriate performance survey for each asset class.

**2. REPORTING RESPONSIBILITIES**

- 2.1 The Investment Manager(s) shall submit a statement of broad investment philosophy and approach indicating the general direction in which funds will be invested. This statement should include a general description of the investment style including permitted investments and diversification requirements.
- 2.2 The Investment Manager(s) will notify the Trustees immediately in writing if:
  - a) the Investment Manager(s) are not in compliance with any aspect of its mandate. Such notification shall also include any remedies required to return the portfolio to compliance;
  - b) there are any significant changes to the Investment Manager(s) in terms of policies, procedures, personnel or ownership; and
  - c) there is any material variation to the investment style provided by the Investment Manager(s)
- 2.3 The Investment Manager(s) shall provide the Trustees with a copy of their policies and procedures for:
  - a) professional standards;
  - b) conflicts of interest; and
  - c) internal controls on operations.

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- 2.4 Conflicts of Interest: The Investment Managers shall disclose to the Trustee information on any actual or potential conflicts of interest as they arise. This shall include but not be limited to:
- a) affiliated parties, including brokers/dealers;
  - b) related party transactions; and
  - c) lines of business other than investment of money for tax-exempt funds.
- 2.5 Performance-related reporting: The Investment Managers shall provide to the Trustee the following information, or other such information that may be requested by the Trustee, within four weeks of the quarter-end:
- a) time-weighted rates of return for each fund and its components, as applicable with comparisons against benchmarks;
  - b) asset mix calculated at market value, as applicable;
  - c) significant shifts in strategy and/or portfolio composition that occurred during the quarter; and
  - d) monthly transaction report.
- 2.6 Compliance Report: On a quarterly basis, the Investment Managers shall confirm its compliance with the fund prospectus. The Investment Managers must also advise if there were any changes to the prospectus and investment mandate.
- In addition, the Investment Manager(s) must confirm that its mandate remains eligible for a registered savings plan within the meaning of section 146 of the Income Tax Act.
- 2.7 On at least an annual basis, the Investment Managers shall meet with the Trustees and provide in writing:
- a) the underlying rationale for the strategy, including an economic commentary, a market overview and return expectations for the capital markets;
  - b) an analysis of their performance including significant decisions that had both a positive and negative effect on returns; and
  - c) a review of the current holdings including significant deviations from the applicable benchmark indices.