

GWAII FOREST CHARITABLE TRUST

STATEMENT OF INVESTMENT

POLICIES AND PROCEDURES

ABOUT THIS DOCUMENT

This **Statement of Investment Policies and Procedures** ("the Statement") has been written in order to assist the Trustees of the Gwaii Forest Charitable Trust in establishing the investment procedures and guidelines for the investment of the assets of the Gwaii Forest Charitable Trust ("the Trust") and in monitoring and evaluating the investment performance achieved on such assets.

This Statement contains:

- investment policies and procedures of the Trust established by the Trustees;
- guidelines to be followed by the Trust's Investment Manager(s) that are consistent with the investment policies and objectives established by the Trustees for the Trust; and
- investment performance objectives and other criteria to be used by the Trustees to review and evaluate the investment results of the Trust's Investment Manager(s).

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

SECTION I

THE INVESTMENT OBJECTIVES

The Trust is to be managed on a going concern basis. All aspects of fiduciary conduct in respect of the Trust's investments will be undertaken in a prudent manner.

The investment of the Trust's assets will always comply with the requirements of the relevant legislation.

INVESTMENT OBJECTIVES

The Trust's current investment objective comprises of the following components:

- a) capital/income requirements sufficient to compensate for the erosion in capital value of the Trust's funds, as a result of price inflation;
- b) income requirements sufficient to meet commitments to current programs and administrative expenses.

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

RISK PROFILE

Longer Term Risk Profile

The major long term risk to the Trust is the possibility of not meeting the objectives set out in a) and b) above, over the longer term.

Prior to meeting the ongoing income requirements, the Trust has to maintain the real value of its capital in order to maintain its spending ability.

This risk is defined as the probability of not maintaining the real value of the Trust's capital over 5 year and longer periods of time.

Shorter Term Risk Profile

Program spending and administrative costs need to be met on an annual basis. In the shorter term, it is desirable to meet these expenses out of current income (coupons and dividends) as opposed to realized gains.

This risk can be defined as the probability of not earning sufficient dividend and coupon income on an annual basis.

FUND RETURN OBJECTIVES

The basic goal underlying the establishment of the Trust'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 and to meet the Trust'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 yield on the assets over the longer term, taking into account the restrictions on allowable investments.

Over shorter time periods the administration and ongoing program costs of the Trust should be met out of current investment income.

INVESTMENT MANAGER RETURN EXPECTATIONS

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

- 1) net of investment expenses, exceed the return that would be achieved on a benchmark portfolio with an asset mix in accordance with the Target Allocations and Duration requirements listed under Strategic Asset Mix over moving 5 year time periods, by 0.5% per annum.

The returns assumed on the benchmark portfolio will be the composite of indices chosen by the Trustees 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 5 year time periods. This is a proxy for meeting the program and administration expenses of the Trust over time.

ASSET MIX AND ELIGIBLE INVESTMENTS

Strategic Asset Mix

The asset mix has been set so as to achieve the investment objectives of the Trust within the restrictions of the regulatory environment.

A Benchmark Portfolio consisting primarily of Bonds, Real Rate Bonds and Equities will form the basis of the investment strategy. The Investment Manager(s) will be entitled to make use of the other acceptable securities as set out herein, in order to enhance returns, as a substitute for this Benchmark Portfolio.

Determination of the Strategic Asset Mix

An analysis of the probable returns based on historical relationships 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.

Constraints

Income tax considerations need to be taken into account in determining the asset mix and management of the portfolio.

Target Asset Mix

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

Asset Class	% of Portfolio		
	Minimum	Target	Maximum
Fixed Income Instruments	45	47	75
Real Rate Bonds	0	15	25
Equities	25	38	42
- Canadian	10	13	17
- US	7.5	13	17
- International	7.5	12	17

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

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

Asset Classes Eligible for Investment and Guidelines in respect thereof

The Investment 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

The Trustees will develop a disciplined rebalancing strategy between each of the asset classes.

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 plan 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

Equity guidelines include common shares and preferred shares.

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 15% of the market value of any manager's 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 will be "BBB" rating, as rated by the Dominion Bond Rating Service or the equivalent rating by a recognized rating agency, at the time of acquisition.
2. Private placements should be rated "A" 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.
3. No more than 10% of the bond portfolio by market value may be held in "BBB" issues at the time of purchase. If any individual bond or debenture in the Fund is downgraded to "BBB" subsequent to the time of acquisition, the investment manager must outline, by way of a formal written communication to the Trustees, the investment reasons for holding the security.
4. 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.
5. No more than 10% of the market value of the bond portfolio may be held in fixed price callable bonds.

Corporate Issues

Corporate issues include corporate bonds, debentures not including convertible debentures.

1. Corporate issues may not exceed 50% of the market value of the bond portfolio.
2. Investment in issues of any one corporation may not exceed 8% of the market value of the bond portfolio.

Short Term Investment Guidelines

Short term investments are bond and money market investments and deposits having an average maturity of twelve months or less.

1. Holdings of such assets will be sufficient to meet the liquidity requirements of the plan 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 Plan'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, including pooled mortgage fund investments, may not exceed 15% of the market value of the Fund.
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.

Other Guidelines

1. Private placements may not be made without prior approval of the Trustees.
2. The following derivative instruments and their combinations are acceptable:
 - i) Forward Rate Agreements
 - ii) Equity and Fixed Income Options
 - iii) Financial Futures
 - iv) Interest Rate 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 Trustees.

4. The voting rights on securities held in the portfolio are left to the discretion of the investment managers. The investment managers are expected to act in good faith and to inform the Trustees of any upcoming vote that may significantly affect the value of the securities.
5. 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 Trustees.

Socially Responsible Investments

All other factors being equal, favourable consideration is to be given by the Investment 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 Trustees reserves the right to invest in such investments subject. Any such investment shall be excluded from any measurement of the Investment 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 Trust or any person involved in setting policy related thereto, including officers, directors and employees with such involvement.

Investment Manager Responsibilities

The duties and responsibilities of each Investment Manager include:

- adhering to these policies and procedures.
- communication with the Trustees on a regular basis and notifying the Trustees in the event the manager believes that the guidelines are adversely affecting performance or are unattainable.
- notifying the Trustees of any change in economic or market circumstances which may adversely impact on this investment strategy.
- notify of any change in investment personnel, ownership or other factors which may influence the investment process.
- investing the Trust's assets with the care, skill, prudence and diligence that a professional investment manager would exercise in the investment of client's assets.

- ensuring at all times that investments are in compliance with any relevant legislation. Reporting on such compliance on a regular basis.

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 Trust in conjunction with the Investment Manager(s). These are set out in Appendix II.

Dismissal of Investment Manager

Reasons for terminating the service of an investment manager include, but are not limited to, the following factors:

- Failure of the Investment 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 Investment 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 Trust will remain a tax exempt entity.

Budgeting

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

APPENDIX I

ASSUMPTIONS UNDERLYING THE DETERMINATION OF THE STRATEGIC ASSET MIX

	Expected Return	Standard Deviation
CPI	2.5%	2.3%
Treasury Bills	3.5%	2.6%
Equities:		
• Canadian	8.3%	16.5%
• US	8.3%	16.0%
• International	8.3%	20.2%
	Expected Yield	
Universe Bonds	5.8%	
Real Return Bonds	5.7%	

APPENDIX II

Proxy Indices For Benchmark Portfolios

- i) Bond Portion of Benchmark Portfolio
Scotia McLeod Universe Index
- ii) Real Return Bond Portion of Benchmark Portfolio.
Scotia McLeod Real Return Bond Index.
- iii) Equity Portion of Benchmark Portfolio
Canadian - S&P/TSX Composite Total Return Index.
International - MSCI EAFE Index (w/ gross dividends reinvested) (CDN\$)
US - S&P 500 Total Return Index (CDN\$)