

# INVESTMENT POLICY STATEMENT



**Date:**

May 9, 2011

**Investment Strategy:** Focused Income Strategy

**Account Name(s):**

Tire Stewardship BC Association

**Prepared by:** Matthew Rainsberry, CFA

**BMO**  **Harris Private Banking®**

BMO HARRIS INVESTMENT MANAGEMENT INC.

## **Investment Policy Statement**

Client Name(s): Tire Stewardship BC Association

May 9, 2011

An Investment Policy Statement is an important part of the portfolio management process. Its purpose is to outline the specific investment strategy that will be applied in the management of the organization's portfolio. The recommended investment strategy outlined in this Investment Policy Statement is based on discussions that the organization has had with the organization's BMO Harris Investment Management Inc. ("BHIMI") investment counsellor.

This document is meant to ensure the prudent management of funds according to mutually agreed upon limitations, while at the same time allowing for sufficient flexibility to react appropriately to changing economic, business and investment market conditions.

As an integral part of the investment process, this Investment Policy Statement outlines our mutual understanding of the organization's tolerance for risk, liquidity needs, time horizon and investment objectives.

The organization's BHIMI investment counsellor will manage the organization's portfolio on a discretionary basis in accordance with the details and investment objective(s) outlined in this document and the organization's Client Account Agreement. Any changes to the organization's established investment strategy may require written amendment to this document.

The organization's Investment Policy Statement covers the following sections:

1. The Current Investment Portfolio
2. Investment Knowledge and Experience
3. Portfolio Objectives
4. Risk Tolerance
5. Portfolio Considerations and Restrictions
6. Recommended Investment Strategy
7. Recommended Portfolio Asset Mix
8. Strategy Implementation
9. Client Service and Reporting
10. Fee Acknowledgement

## 1 *The Current Investment Portfolio*

Summary of Account(s):

Name of BHIMI Account	Approximate value
Tire Stewardship BC Association	\$5,000,000
<b>TOTAL APPROXIMATE VALUE OF INVESTMENT PORTFOLIO</b>	<b>\$5,000,000</b>

The organization has indicated that this amount represents approximately 40% of the organization's overall investment assets. The investment objectives and recommended investment strategy outlined in this Investment Policy Statement will only apply to the portfolio managed by BHIMI.

## 2 *Investment Knowledge and Experience*

Investment *knowledge* can vary from having no investment knowledge and likely just being aware of term products such as GICs (Guaranteed Investment Certificates), to a basic understanding of simple investment products that hold a diversified basket of capital preservation or appreciation securities, such as equity or fixed income mutual funds. An average understanding refers to having knowledge of the characteristics and drivers of a variety of individual equity and bond securities and strategies, whereas an advanced understanding means being comfortable with understanding more complex investment securities and trading strategies including stock options and derivatives. The organization has indicated that the organization has average investment knowledge.

Investment *experience* represents the type and variety of investment decisions you have made alone or with professional assistance. This may vary from having only been invested GICs and term deposits to having limited experience which means having been invested in fixed income and equity mutual funds, but no prior investments in individual bonds and stocks. Moderate experience would refer to having been invested in a variety of individual bonds and stocks as well as equity mutual funds, whereas have extensive experience would refer to having been invested in individual securities and funds, as well as in other investment structures that may include limited partnerships or other discretionary or pooled investment management programs. The organization has indicated that the organization has moderate investment experience.

### 3 **Portfolio Objectives**

There are a number of factors that determine the investment strategy that will be used in managing the organization's portfolio. The following is a list of these factors:

The organization's investment objective and risk tolerance will be influenced by the organization's time horizon, meaning the length of time the organization intends to follow this investment strategy, assuming there are no changes to the organization's financial situation or needs.

#### **a. Investment Objective**

Based on discussions that the organization has had with the organization's **BHIMI** investment counsellor, the organization has identified that the organization's primary investment objective is "capital preservation" and secondary objective is "capital appreciation", meaning the organization is looking to align the growth of the portfolio and/or income needs with inflation.

#### **b. Time Horizon**

The organization has indicated that the time horizon for this portfolio is over 7 years (i.e. longer than a full market cycle).

#### **c. Income Requirements**

The organization's portfolio may generate income through interest or dividend payments. This income or cash flow can be reinvested or paid out periodically. If the interest or dividend income generated in the portfolio falls short of the organization's needs, capital or capital gains may be required to cover the shortfall. Currently, the organization does not require that the income generated within the portfolio be paid out.

#### **d. Liquidity**

Portfolio liquidity is the amount of cash or cash equivalent securities, such as Treasury Bills or Money Market funds, maintained in the organization's portfolio. The organization's investment objective and the prevailing market and economic conditions will dictate the level of liquidity in the organization's portfolio.

## **4 Risk Tolerance**

### **a. Risk Appetite**

The total investment return earned on the organization's portfolio may include interest, capital gains and dividends. This return will be driven by the mix of investments that are held in the organization's portfolio.

There is, however, a tradeoff between risk and return. Typically, to achieve higher returns, an investor has to accept higher risk. Because of the risk-return tradeoff, an investor must be aware of the investor's risk tolerance when determining an appropriate investment strategy. After having discussed the risk/return tradeoffs for hypothetical portfolios, the organization has indicated that the organization would like to maintain a low risk asset allocation and understands that in order to maintain that risk level, returns from the portfolio may be expected to be lower than from a "balanced" portfolio of equities and fixed income.

### **b. Volatility and Returns**

The capital growth potential of the organization's portfolio is, to a large extent, determined by the level of equity holdings within the organization's portfolio. After having discussed the historical returns and volatility for hypothetical portfolios, the organization has indicated that the organization would prefer to be invested in a portfolio that has a smaller allocation to equities and is characterized by low historical volatility. The organization recognizes that this may result in lower potential returns for its investment portfolio.

### **c. Foreign Diversification**

For Canadian investors, investing in foreign markets is very important because of the significant benefits foreign diversification offers. The main advantage to including foreign securities is the potential for higher returns with a lower level of risk.

When investing in foreign securities, the organization's portfolio may change in value due to both capital risk and currency risk. As described above, capital risk describes the fluctuation in the price of a security, which may be sold at a loss if the outlook for that investment has changed. Currency risk arises from the change in price of one currency against another. In some cases, a security may have increased in value in local currency terms, but when converted to Canadian dollars, an investor may realize a loss if the currency exchange rate between the two countries has changed.

BHIMI, in consideration of foreign economic and market conditions, will determine the appropriate percentage of the organization's portfolio to be invested in the U.S. and the international (non-North American) markets in order to optimize the portfolio's foreign holdings.

## **5 Portfolio Considerations and Restrictions**

### **a. Investment Considerations and Restrictions**

For various ethical, legal or regulatory reasons, the organization may want to place investment constraints on the organization's portfolio.

The organization does not have any investment constraints.

BMO Trust Company, as Custodian, and BHIMI, as Investment Manager, will not be responsible for any action with respect to any client-initiated investment decision and will rely on client instructions as to these investments. Accordingly, BMO Trust Company and BHIMI will not comment on the investment merits of these investments or their appropriateness in the portfolio. The client recognizes that they must provide BHIMI with written instructions prior to any client-initiated investment decisions. The client further recognizes that client-initiated investment decisions may affect the portfolio's performance.

## 6 Recommended Investment Strategy

### Focused Income Strategy

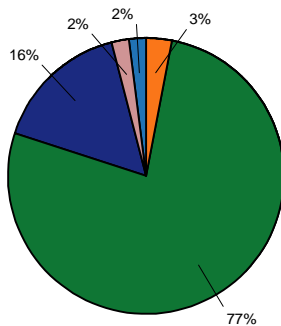
Based on the organization's investment objectives, tolerance for risk and other related information that the organization has provided, as outlined in this Investment Policy Statement, the recommended investment approach for this portfolio is: Focused Income Strategy.

The primary focus of a Focused Income Strategy is to provide current income while preserving capital. Returns will be achieved predominantly from fixed income securities supplemented by a smaller allocation to equities. This investment approach can be expected to have portfolio volatility somewhat below that of a balanced portfolio.

## 7 Recommended Portfolio Asset Mix

Based on the organization's investment objectives, tolerance for risk, portfolio restrictions, and market conditions, the following asset mix is recommended for this Focused Income Strategy portfolio:

Modifications to the recommended asset mix will be implemented within the allowable asset ranges on a discretionary basis as market conditions warrant. The organization's portfolio may also be re-balanced in those situations where the relative performance of one or more asset classes causes the portfolio's asset mix to diverge outside the allowable ranges.



Focused Income Strategy Asset Mix Ranges		
Asset Class	Min.	Max.
Cash and Cash Equivalents - Canadian	0.0	10.0
Cash and Cash Equivalents - non-Canadian	0.0	10.0
Fixed Income - Canadian	60.0	90.0
Non-Trad Cap Pres Investments	0.0	25.0
<b>Total Capital Preservation</b>	<b>70.0</b>	<b>90.0</b>
Equities - Canadian	5.0	25.0
Equities - U.S.	0.0	5.0
Equities - Non-North American	0.0	5.0
<b>Total Capital Appreciation</b>	<b>10.0</b>	<b>30.0</b>

#### Notes:

1. The asset mix represented in the pie-chart above represents long-term strategic benchmark allocations for this strategy and may not be reflective of the specific asset allocation in the organization's portfolio, at any particular point in time.
2. The sub-asset asset class ranges represented in the table above are illustrative and directional in nature and are included only to provide additional context for the Total Asset Class range (i.e. Capital Preservation and Capital Appreciation), and may not be reflective of a potentially greater variance in allocations to these sub-asset classes in the organization's portfolio, at any particular point in time.
3. From time to time, for short periods, the working cash component of this strategy's capital appreciation allocation may be elevated to accommodate asset allocation changes or changes in the holdings for that asset class.

## 8 *Strategy Implementation*

The implementation of the Focused Income Strategy will be achieved by investing in a diversified mix of investments that can be classified as either “Capital Preservation” or “Capital Appreciation”. The capital growth and income potential of the organization’s portfolio is substantially determined by the blend of Capital Preservation assets and Capital Appreciation assets that are held in the organization’s portfolio.

### **a. Capital Preservation Investments**

Capital Preservation investments are characterized by relatively low volatility where investors accept lower expected returns in return for a higher probability of generating positive returns over an intermediate (or shorter) time horizon. In the organization’s portfolio, this asset class may consist of cash, short term investments, fixed income securities or non-traditional investment solutions that have similar risk and return characteristics.

**Short-Term Investments** may include, but are not limited to, individual fixed income securities such as Certificates of Deposit, Commercial Paper, Treasury Bills and other similar securities with less than one year to maturity. Cash positions will receive a premium interest rate.

**Fixed Income Investments** may include, but are not limited to, government and corporate bonds, preferred stocks and exchange-traded funds representing bond market participation. Investments shall be selected and managed to ensure an appropriate balance among quality, maturity, coupon and yield, taking current economic and market conditions and the organization’s investment objectives into consideration.

**Non-Traditional Capital Preservation Investments** may include, but are not limited to, structured notes, private placements, limited partnerships, direct investments and pooled investment vehicles. Please note that certain regulatory restrictions, such as non-resident status, status as an “accredited investor” (as defined in Canadian securities legislation), or minimum investment size, may restrict investors from accessing certain non-traditional investment strategies.

### **b. Capital Appreciation Investments**

Capital Appreciation investments are characterized by relatively higher volatility in return for a higher probability of generating positive returns over the long term. Capital Appreciation assets tend to generate returns through capital gains. In the organization’s portfolio, this asset class may consist of equity securities or non-traditional investment solutions that have similar risk and return characteristics.

**Equity Investments** may include, but are not limited to, common stocks, income trusts, royalty trusts, convertible fixed-income securities, and exchange-traded funds representing equity market participation.

**Non-Traditional Capital Appreciation Investments** may include, but are not limited to, structured notes, private placements, limited partnerships, direct investments and pooled investment vehicles. Please note that certain regulatory restrictions, such as non-resident status, status as an “accredited investor” (as defined in Canadian securities legislation), or minimum investment size, may restrict investors from accessing certain non-traditional investment strategies.

## **9** *Client Service And Reporting*

BMO Trust Company provides all custodial and record keeping services for the organization's portfolio. The organization's personal investment counsellor is available to ensure that all the organization's financial needs and questions are met. In addition, the organization will receive the following:

### **Client Statements**

Comprehensive statements are provided on a quarterly basis. Statements include an up-to-date investment valuation report showing the cost of the securities, current market value and estimated annual income and yield. A statement of transactions is also included which clearly outlines all investment activity within the organization's account(s), together with client transactions such as disbursements from the account(s).

### **Performance Reports**

On a quarterly basis we will provide a performance report highlighting performance during that quarter in addition to providing a summary of the current economic climate, outlook as to where those conditions may lead during the coming quarter and the investment strategy that will be applied based on that outlook.

### **Tax Reporting**

At the end of February following each calendar year-end, a full accounting for tax purposes will be provided including summaries of capital gains/losses, dividend income, interest income, fees paid, and T3/T5 slips as required.

## **10** *Fee Acknowledgement*

The organization hereby acknowledges having the BHIMI Investment Management Fee Schedule and agrees to be bound by same.

Opinions, estimates and projections contained herein are not intended to be, and are not, definitive analyses and may not accurately represent future capital markets' conditions. The information and analysis contained herein are dependent on the accuracy and completeness of the personal/corporate data which the organization has provided and on other objective data which has been compiled or arrived at from sources believed to be reliable; no representation or warranty, express or implied, is made as to their accuracy or completeness. The Bank of Montreal, BMO Trust Company, BMO Harris Investment Management Inc. and their affiliates accept no liability whatsoever for any loss arising from any use of this investment policy statement or its contents. This investment policy statement is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities. The Bank of Montreal and its affiliates, and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO Trust Company is a wholly owned subsidiary of Bank of Montreal.

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