

YUULU?IL?ATH FIRST NATION GOVERNMENT

Enacted under the Financial Administration Act section 7.6(b)(i)

STATEMENT OF INVESTMENT POLICY
AMENDING REGULATION

YFNR 25/2014



This regulation enacted on July 30, 2014

Signed

A handwritten signature in blue ink, appearing to read 'Charles McCarthy', written over a horizontal line.

Charles McCarthy, President of the
Yuulu?il?ath First Nation

DEPOSITED IN THE
REGISTRY OF LAWS

ON 10/08/2014

A handwritten signature in black ink, appearing to be a stylized name, written over a horizontal line.

Signature of Law Clerk

TABLE OF CONTENTS

PART 1 - INTRODUCTORY PROVISIONS.....S
 Short Title.....5
 Application5
 Definitions5
PART 2 -REGULATION AMENDMENTS.....7
 Schedule I – Statement of Investment Policy.....7

PART 1- INTRODUCTORY PROVISIONS

Short Title

- 1.1 This regulation may be cited as the Statement of Investment Policy Amending Regulation.

Application

- 1.2 This regulation makes amendments to the Statement of Investment Policy Regulation.

Definitions

- 1.3 In this regulation,
"Act" means the Financial Administration Act;

SCHEDULE 1 – STATEMENT OF INVESTMENT POLICY

**Investment Policy
Statement**

Implementation Funds

**Yuulu?i?ath First
Nation**

July 30, 2014

Approved on this 30th day of
July, 2014

Purpose of Investment Policy Statement ("IPS")

The purpose of this policy statement is to provide a framework for the management of the portfolio within acceptable risk levels. The policy provides the investment manager with a written statement of rate of return objectives, risk levels, and specific quality and quantity constraints.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets. The assets will at all times be invested in accordance with the IPS as outlined herein or as subsequently amended.

1. Background

The Yuułuʔiłʔatḥ ("YFN") First Nation is one of the five Nations, collectively called the Maa-nulth Nations, that negotiated a Treaty with Canada and BC. While the Treaty provisions are extensive, this policy statement pertains to the assets to be invested for the long-term, by the YFN, which were received as part of the Treaty.

There are two distinct funds that were set up, subsequent to the assets being received, with each having different purposes and different investment objectives. **This policy pertains to the Implementation Funds.**

2. Implementation Funds

The Fiscal Financing Agreement provides funds to YFN to cover the incremental cost of governance activities to implement and operate as a self-governing Nation. Funds to cover one half of the incremental implementation costs are paid by Canada to the Nation annually.

The other half of the funds are to be generated by the Nation by investing one-time payments the Nation will receive from Canada. These funds will be paid directly to YFN and will be owned directly by its government. The Nation intends to establish an implementation fund to generate investment income on a perpetual basis sufficient to cover the other half of the incremental cost of governance activities. YFN has formed an Investment Committee to carry out the management of the implementation fund portfolio.

It is important to note that the YFN will be relying on a perpetual stream of income from the investment of the Implementation Funds to maintain the ability to cover on-going operating expenses from year to year. The investment of the funds will have to take into account the impact of inflation on the stream of future income.

Deposits will be made on an annual basis into the Implementation Funds over an 8-year period.

3. Duties of the Parties

3.1 Duties of the Investment Committee

The investment committee appointed by YFN will:

- (a) establish the IPS;
- (b) annually review, and amend the IPS if needed;
- (c) select an Investment Manager;
- (d) select, monitor, and replace, when deemed necessary, a Custodian to hold the assets;
- (e) select, monitor, and replace, when deemed necessary, an Auditor;
- (f) review the investment performance at least semi-annually;
- (g) ensure the Investment Manager's compliance with the IPS and applicable mandates or agreements;
- (h) provide information on significant cash flow changes to the Investment Manager;
- (i) review custodial statements on a quarterly basis; and
- (j) communicate with the YFN concerning liquidity needs, creating an annual budget for expected withdrawals.

The committee retains the right to replace the Investment Manager at any time. Reasons for replacement include:

- (i) the Manager's performance falling below expected performance levels, not reasonably explained by their investment style being out of favour temporarily, as measured on rolling 5-year periods,
- (ii) changes to the Manager's style or process, and
- (iii) changes to key investment personnel

For clarity, the Committee members are not responsible for any decisions with respect to any specific investment or securities that are to be selected for the fund's portfolio.

3.2 Duties of the Investment Manager

The Investment Manager will:

- (b) have full investment discretion to manage the portfolio, subject to the constraints set out in this IPS;
- (c) participate in annual reviews of the IPS;

- (d) present reviews of investment performance as well as its expectations of future returns, current strategy, and other issues requested by the Committee;
- (e) provide the Committee with written reports at least quarterly and report in person to the Committee as required, but at least annually, including:
 - (i) periodic rates of return for the portfolio,
 - (ii) how the assets were invested at the end of each quarter,
 - (iii) the voting of shares and the position of the Investment Manager on applicable issues, and
 - (iv) a statement of compliance with this IPS.
- (j) provide the necessary information for the committee to review the IPS and the Investment Manager's performance; *and*
- (g) identify provisions in the IPS that may need to be revised due to new investment strategies or changes in the capital markets.

3.3 **Duties of a Professional Advisor**

If the committee has retained the services of a Professional Advisor to aid in the investment management process, the Professional Advisor will:

- (a) participate with the committee and the Investment Manager in the preparation/amendment and subsequent annual reviews of the IPS;
- (b) participate with the committee and the Investment Manager in the annual reviews of the Investment Manager's expectations about future returns on asset classes and investment strategies;
- (c) comment to the committee on any matters relating to the portfolio's operation or cash flow, which may affect how the assets are invested;
- (d) provide the committee analysis of the relative performance of the Investment Manager, as compared with their peers, over various periods and applicable asset classes, at least annually.

3.4 Auditor

The implementation fund will be audited annually and the Auditor shall report to the Committee annually in a form acceptable to the Committee.

3.5 Duties of the Custodian

The Custodian will:

- (a) perform the regular duties required by law of a Custodian;
- (b) perform the duties required pursuant to agreements entered into with the committee; and
- (c) Provide the Committee with periodic portfolio printouts of all assets and transactions during the period.

3.6 Standard of Care

The investment manager is expected, as a minimum, to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

The manager will manage the assets with the care, diligence and skill that a prudent person skilled as a professional investment manager would use. The manager will use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

4. Investment & Risk Philosophy

4.1 Investment Goals and Expectations

The portfolio must generate sufficient investment income into the future to provide for the perpetual funding of a portion of the administration activities of the Nation. This income will have to meet the required amount needed in current dollars, but also in the future as the administration costs rise with inflation.

It is estimated that 3.0% of the funds are needed to cover one year's worth of the share of the administration expenses to be provided by the portfolio. In order to meet these expenses forever, the portfolio will need to earn an average return, over rolling 5-year periods, of inflation plus 3.0%.

The Committee wishes to minimize the risk, if possible, of not being able to provide the required distribution amount over the long term. The Investment Manager is expected to make decisions with this objective in mind.

4.2 Performance Objective

The performance objective of the portfolio is to achieve a rate of return, net of investment management fees, of inflation plus three percent over moving five-year periods. Since some risk must be taken to earn this return, it is acknowledged that it will not be possible to earn the return in every single calendar year. However, the investment manager will manage the portfolio to maximize the chances of earning it over rolling 5-year periods, with low to moderate risk.

4.3 Risk Tolerance

In order to achieve the long-term goals, the fund will invest in assets that may have uncertain returns such as equities and bonds. The investment committee will look to reduce the overall level of risk by diversifying both by asset classes and by the investments within each asset class. Risk is also addressed through quality, quantity and diversification guidelines set out in this document. As a further risk control, the investment committee reviews compliance on a quarterly basis with the quality and quantity guidelines contained in this policy. Finally, the investment manager provides quarterly reports to the Board on compliance.

The specific weights for each asset class are set based on the risk tolerance of the overall fund. Risk tolerance is assessed through a detailed review of the Plan and the investment markets that considers:

- Historical and prospective risk and return of various asset classes
- Investment time horizon
- Liquidity needs
- Other unique specific factors

4.4 Permitted Investments

- (a) The fund may only be invested in the following asset categories:
 - (i) cash, term deposits, short term notes, treasury bills, bankers acceptances, commercial paper;
 - (ii) bonds and non-convertible debentures;
 - (iii) mortgages and other asset-backed securities;
 - (iv) convertible debentures;
 - (v) common and preferred stocks;
- (b) Investment in pooled funds is permissible. It is recognized that pooled funds are governed by their own investment policies, the provisions of which may diverge from those in this policy statement. The Committee, with the assistance of the investment manager, has reviewed the guidelines for pooled funds in which the portfolio is invested and determined they are appropriate investment vehicles.

4.5 Constraints

- (a) The assets shall be invested at all times in a prudently-diversified manner, in the opinion of the Committee, in the overall context of the total portfolio and the nature of the obligations.
- (b) The investment manager is expected to maintain relatively high quality portfolios. In general, equity investments should be limited to stocks that are publicly traded on a recognized securities market
- (c) Appendix A should be referred to for copies of Leith Wheeler's internal investment policy statements
- (d) All investments shall be maintained so as to comply with the following limits:
 - (i) maximum investment in a single company -- no more than 10% of the market value of the portfolio may be lent to or invested in any one company or associated companies, except where guaranteed by the Government of Canada or a Canadian province;
 - (ii) maximum ownership of the voting shares of a corporation -- shall not exceed 15%;

- (e) All investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within 1 month)
- (j) No part of the fund shall be loaned to any individual

4.6 Related Party Investments

The implementation fund assets may be involved in a transaction with a related party only to the extent permitted under applicable legislation/agreements. To the extent that applicable legislation permits related party transactions which are nominal or immaterial to the fund, a transaction shall be considered nominal or immaterial if it involves an amount equal to less than 0.1% of the market value of the fund.

5. Allocation of Investments

The Investment Manager shall have full authority, acting within the constraints detailed below, in determining the asset mix of the portfolio, including which equity, bond, mortgage and money market securities are selected for the portfolio.

A significant factor in determining the appropriate asset allocation for the Implementation Fund is current interest rates. At the inception of the portfolio, longer term objectives were achievable with a low equity approach. Falling interest rates benefited the Fund with a greater than expected overall return in the first 3 years (i.e. since portfolio inception) but lower interest rates and forecasted returns now necessitate an increased exposure to equities.

In order to achieve the investment goals careful consideration must be given to balancing the risk and return objectives of the fund.

	Minimum	Neutral	Maximum
Canadian Equity (Income Approach)		25%	
U.S. Equity		10%	
International Equity		10%	
Total Equity	35%	45%	55%
Bonds (Core)		15%	
Bonds (Income Approach)		35%	
Cash & Equivalents		5%	
Total Fixed Income	45%	55%	65%

6. Guidelines

6.1 Additional Guidelines

These guidelines apply to:

- (a) any of the Committee;
- (b) the Investment Manager;
- (c) the professional advisor;
- (d) the Custodian; *and*
- (e) any employee or agent retained by those listed in (a) to (d) to provide services.

6.2 Conflict of Interest

Any person listed above must disclose to the Committee any direct or indirect association or material interest or involvement in aspects related to his/her role with regard to the investments that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, this would include material benefit from any asset held, or any significant holding, or the membership on the boards of any corporations, or any actual or proposed contracts with the issuer of any securities which are or will be included in the portfolio.

6.3 Voting Rights

Any voting rights associated with securities held will be exercised at the discretion of the Investment Manager(s) using the interests of the client as the sole voting criterion. For the portion of the assets invested in pooled funds, where it is not possible to vote shares in accordance with the wishes of individual unit holders, the Investment Manager(s) shall inform the Committee at the next meeting of any controversial or newsworthy issues regarding the voting of shares and the Investment Manager's position on such issues.

6.4 Valuation of Investments

It is expected that most securities held will have an active market and, therefore, the valuation of the securities held will be based on their market values.

GICs and other non-publicly-traded investments shall be valued at cost (i.e., book or amortized value) unless the Investment Manager or Custodian determine that a value greater or less than cost should be used. If the latter is the case, the value and reasons for such use must be disclosed to the Committee.

6.5 Investment Review Meetings

- (a) The Investment Manager will provide the Investment Committee with written reports at least quarterly and report in person to the Investment Committee as required, but at least annually. The investment policy statement shall be reviewed at the first meeting held each calendar year. Special meetings may be arranged for new developments.
- (b) The agenda of these investment review meetings will be:
 - (i) to review the investment policy statement (only at first meeting);
 - (ii) to review performance results relative to the established objectives;
 - (iii) to review economic forecasts; *and*
 - (iv) to review the asset mix of the fund.

Appendix A