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# **Investment Policy Statement**

**Prepared for**

**Roger & Jane Black**



**Prepared: June 13, 2011**  
**Prepared by: Lynne Myles**



## Purpose for an Investment Policy Statement

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An Investment Policy Statement (IPS) provides the framework for your investment decisions. The IPS ensures that the decision-making process with respect to the management of your portfolio will be consistent, even when unexpected market fluctuations tempt to distract you from your long-term strategy. Investment recommendations will always be made in conjunction with the guidelines we agree upon and have outlined in this document. We view the development of an effective IPS as imperative — the essential foundation upon which our work together will be based.

*This report has been prepared to assist in the analysis of your current financial position and to help you identify steps that you can take to assist you in achieving your personal financial goals and objectives. Although great care has been taken to ensure the accuracy of this report, it should be kept in mind that projections, by their very nature, are based on a variety of assumptions and as such it is likely that the actual results achieved will be somewhat different than illustrated. For this reason it is very important that you review your strategy on a regular basis to ensure its timeliness and relevance to your changing financial position.*



## Investment Philosophy and Objectives

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Based on our discussions and your responses to our risk tolerance questionnaire as seen below, we have identified your comfort with investment risk to be **Average**. An objective analysis of your personal risk tolerance combined with an understanding of your investment objectives, provides the basis for an investment strategy that you should feel comfortable maintaining through market ups and downs.

**Willingness to take Financial Risk:** Compared to others you rate your willingness to take financial risk as being average.

**Comfort with Investment Risk:** When it comes to investing, you have somewhat rarely invested a large sum in a risky investment mainly for the "thrill" of seeing what would happen.

**Current Risk Threshold:** When you made financial decisions in the past you have been comfortable taking a medium degree of risk.

**Confidence:** You have a reasonable amount of confidence in your ability to make good financial decisions.

**Ability to Adapt:** If you had a bad experience with an investment you made in a highly regarded company due to poor management, you are not sure if you would invest in that company today even if the company was restructured under new management and better than average returns are expected.

**Risk vs. Return Capacity:** If you were investing one-quarter of your investment funds into a single investment that was expected to earn about twice the return of a GIC (guaranteed investment certificate), there would have to be a moderately low chance of loss in order for you to make the investment.

**Investment Trend:** In recent years your personal investment approach has mostly changed towards lower risk investments.



# Current Financial Position

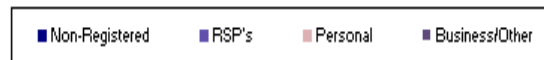
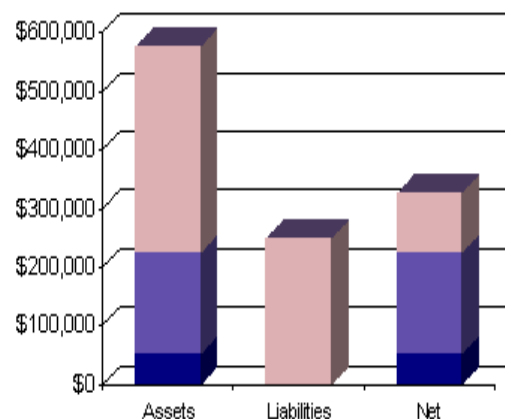
Your net worth statement measures your financial position at a specific point in time. It also provides a benchmark against you can measure your progress. Net Worth is the difference between your total assets of \$575,000 and your total liabilities of \$250,000. Currently, your net worth is \$325,000.

Assets	Roger	Jane	Total
<b>Personal Use Assets</b>			
Personal Use	\$ 175,000	\$ 175,000	\$ 350,000
<b>Total Personal Use Assets</b>	<b>\$ 175,000</b>	<b>\$ 175,000</b>	<b>\$ 350,000</b>
<b>Registered Investments</b>			
Registered Investments	\$ 100,000	\$ 0	\$ 100,000
Registered Investments	\$ 0	\$ 75,000	\$ 75,000
<b>Total Registered Investments</b>	<b>\$ 100,000</b>	<b>\$ 75,000</b>	<b>\$ 175,000</b>
<b>Non-Registered Investments</b>			
Non-Registered Investments	\$ 25,000	\$ 25,000	\$ 50,000
<b>Total Non-Registered Investments</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 50,000</b>
<b>Total Assets</b>	<b>\$ 300,000</b>	<b>\$ 275,000</b>	<b>\$ 575,000</b>

Liabilities	Roger	Jane	Total
<b>Personal Use Liabilities</b>			
Personal Use	\$ 125,000	\$ 125,000	\$ 250,000
<b>Total Personal Use Liabilities</b>	<b>\$ 125,000</b>	<b>\$ 125,000</b>	<b>\$ 250,000</b>
<b>Total Liabilities</b>	<b>\$ 125,000</b>	<b>\$ 125,000</b>	<b>\$ 250,000</b>
<b>Net Worth</b>	<b>\$ 175,000</b>	<b>\$ 150,000</b>	<b>\$ 325,000</b>

## Net Investment Assets

Although your net worth measures your overall financial position, it is your net investment assets that will fund your financial goals. Your net investment assets of \$225,000 are comprised of your total investment assets minus your investment liabilities.





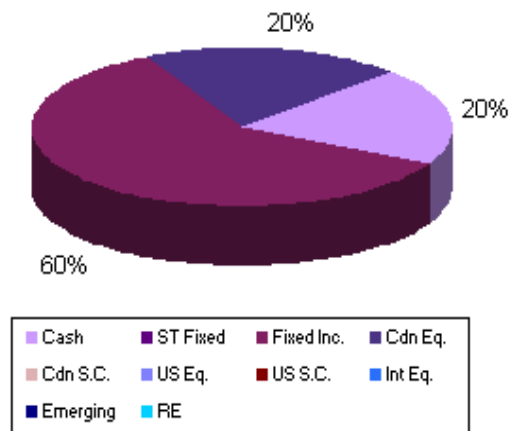
# Asset Allocation

## Current Asset Allocation

A well-diversified portfolio, using asset classes in proportions designed to suit your attitude towards investment risk is the cornerstone of good investing. Each investment included in your portfolio must be part of an overall asset allocation strategy tailored to *your specific needs*.

Based on the information that you have provided, the current asset allocation of your portfolio is:

Cash	20%
Fixed Income	60%
Canadian Equities	20%
<b>Total</b>	<b>100%</b>

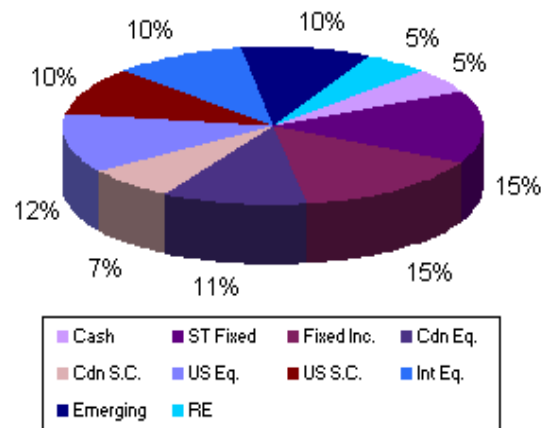


## Proposed Asset Allocation

In order to identify an asset allocation that is appropriate for you, we take into consideration the information collected during our discussions, your current financial position, future investment goals, and your ability to withstand short-term market fluctuations. The resulting asset allocation will reflect your personal attitude towards investment risk. Your proposed asset allocation is:

Cash	5%
Short-Term Fixed Income	15%
Fixed Income	15%
Canadian Equities	11%
Canadian Small Cap Equities	7%
US Equities	12%
US Small Cap Equities	10%
International Equities	10%
Emerging Markets	10%
Real Estate	5%
<b>Total</b>	<b>100%</b>

**Long-Term Return: 4.6%**  
**Long-Term Risk: 6.2%**



**Long-Term Return: 6.7%**  
**Long-Term Risk: 10.9%**



## Portfolio Repositioning Required

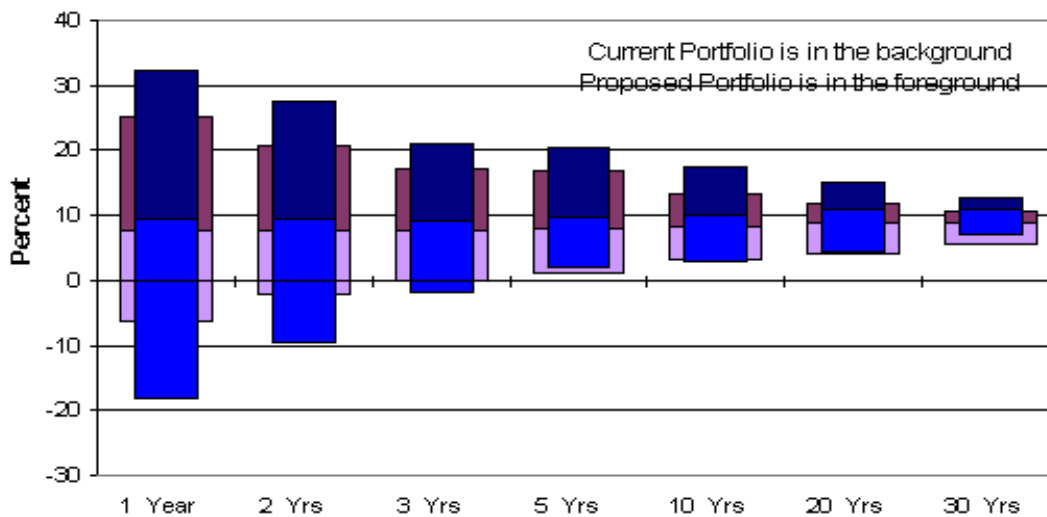
Asset Category	Current %	Current Value (\$)	Target %	Target Value (\$)	Reposition %	Reposition Value (\$)
Cash	20.00	45,000	5.00	11,250	-15.00	-33,750
Short-Term Fixed Income	0.00	0	15.00	33,750	15.00	33,750
Fixed Income	60.00	135,000	15.00	33,750	-45.00	-101,250
Canadian Equities	20.00	45,000	11.00	24,750	-9.00	-20,250
Canadian Small Cap Equities	0.00	0	7.00	15,750	7.00	15,750
US Equities	0.00	0	12.00	27,000	12.00	27,000
US Small Cap Equities	0.00	0	10.00	22,500	10.00	22,500
International Equities	0.00	0	10.00	22,500	10.00	22,500
Emerging Markets	0.00	0	10.00	22,500	10.00	22,500
Real Estate	0.00	0	5.00	11,250	5.00	11,250
<b>Totals</b>	<b>100%</b>	<b>225,000</b>	<b>100%</b>	<b>225,000</b>	<b>N/A</b>	<b>N/A</b>



## Portfolio Risk vs. Time

The long-term projected returns for your current and proposed portfolio are based on historical rates of return for each asset class using data going back as far as 1950, where the actual rate of inflation is replaced with an estimated rate of inflation of 3.0%.

we know that history does not repeat itself exactly, the rates of return for the various asset classes and their associated “risk” are influenced by economic cycles that do have a reasonably consistent long-term pattern. Consider the following “Portfolio Risk vs. Time” graph, which provides a good picture of the highest, lowest and average historical returns over both short-term and long-term time horizons for your current and proposed portfolio.



	1 Year	2 Years	3 Years	5 Years	10 Years	20 Years	30 Years
<b>Current Portfolio</b>							
Actual Historical Highest (%)	25.13	20.64	17.21	16.74	13.44	11.86	10.51
Actual Historical Average (%)	7.72	7.75	7.80	8.01	8.37	8.92	9.00
Expected Return (%)	4.67	4.67	4.67	4.67	4.67	4.67	4.67
Actual Historical Lowest (%)	-6.34	-2.13	-0.08	1.23	3.28	4.15	5.56
<b>Proposed Portfolio</b>							
Actual Historical Highest (%)	32.25	27.40	20.99	20.55	17.56	15.16	12.85
Actual Historical Average (%)	9.35	9.32	9.26	9.61	10.12	10.87	10.83
Expected Return (%)	6.70	6.70	6.70	6.70	6.70	6.70	6.70
Actual Historical Lowest (%)	-18.14	-9.50	-1.79	2.17	2.87	4.32	7.02

This clearly illustrates that shorter time horizons demonstrate high historical volatility of returns whereas volatility over longer time horizons is reduced. This risk/reward profile is a key component to your personal Investment Policy Statement as it relates directly to your personal tolerance for risk. Portfolios with an emphasis on aggressive long-term growth will tend to experience a higher degree of volatility in the short-term than portfolios with a moderate or conservative emphasis on growth. This is the trade-off that must be accepted in order to achieve higher rates of return.



# Assumptions

An Investment Policy Statement is a long-term planning document. Consequently, it is necessary to make a number of assumptions about the future so that we can identify the long-term impact your investment decisions will have on your portfolio. These are the assumptions that we have made in doing our calculations:

## Inflation

The performance of most investments is significantly influenced by the rate of inflation experienced through the time period that you own them. Therefore, we have to apply an expected inflation factor to estimate future returns. We have used an assumed inflation rate of 3.0% throughout this report.

## Portfolio Returns

The long-term average returns used for projecting portfolio performance, are based on historical real rates of return for each asset class. When we say “real” rates of return, this means that we take the historical return for each asset class and subtract the historical inflation for the same time period. We then take your inflation assumption of 3.0% as identified above and add this to the real rates of return to get a forward looking projected return. These long-term average returns are based on appropriate benchmarks for each asset class using 59 years of history where data is available.

Asset Class	Benchmark
Cash	91-Day T-Bill Index (1)
Short-Term Fixed Income	DEX Short Term Bond Index (2)
Fixed Income	DEX Universe Bond Index
Canadian Equities	50% Canadian Dividend and 50% Income Trust (3)
Canadian Small Cap Equities	S&P/TSX Total Return
US Equities	S&P/TSX Small Cap Total Return (4)
US Small Cap Equities	S&P 500 Composite Total Return Index \$Cdn
International Equities	Russell 2000 US Small Cap Index \$Cdn (5)
Emerging Markets	MSCI EAFE Total Return Index \$Cdn (6)
Real Estate	Globe Real Estate Peer Index (7)

- 1) Cash return reduced by 1%.
- 2) Short Term Fixed data from 1966.
- 3) Canadian Dividends 1976 - 1985, 50% Canadian Dividend and 50% Canadian Income Trust from 1986.
- 4) Canadian Small Cap data from 1987.
- 5) US Small Cap data from 1979.
- 6) International Equities data from 1972.
- 7) Russell/Morguard Property Index (1950 - 1998), Globe Real Estate Peer Index from 1999.

While past investment performance is no guarantee of future performance, history does give us insight into how asset classes behave over long periods of time. That is why we use these benchmarks as the basis for projecting future investment performance. Note also that in your case we have reduced the projected returns by 1.5% in order to be more conservative in any projections done.



## Investment Policy Statement - Agreement

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As a result of your input and our discussions, we have jointly developed this Investment Policy Statement (IPS). Its purpose is to guide us in effectively implementing and supervising a strategy for managing your investment assets. To accomplish this, we have:

- Ascertained your attitudes, expectations and objectives.
- Outlined the various asset classes and allocations to be used in the implementation of your IPS.
- Illustrated the target rate of return and associated risk associated with your proposed portfolio.

This IPS also creates an effective channel of communication between us so that important issues and concerns for either party can be clarified. By committing our agreed upon thoughts to a written document, the potential for conflict and general misunderstandings is greatly minimized. For this reason, we ask you to sign this IPS Agreement — to confirm that you agree with its contents. This Investment Policy Statement is not a contract of any kind, but a summary of our agreed upon investment strategy for your portfolio.

I agree with the Investment Policy Statement as outlined in this document. I further agree that this document shall provide the guidelines under which my investment portfolio will be managed.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2011.

\_\_\_\_\_  
Roger Black

\_\_\_\_\_  
Jane Black

\_\_\_\_\_  
Lynne Myles



## Action Plan Checklist

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<b>When</b>	<b>Who</b>	<b>What</b>	<b>Date Complete</b>
<b>Now</b>	Lynne Roger Jane	Investment Policy Statement Agreement - Review this Investment Policy Statement and answer any questions or concerns you might have. Once you are satisfied that the proposed strategy is appropriate for you, sign the Agreement.	
<b>Now</b>	Lynne Roger Jane	Implementation of your Proposed Asset Allocation – We will work with you to implement your proposed asset allocation using various investment alternatives.	
<b>Regularly</b>	Lynne Roger Jane	Investment Reporting – Based on your recommended implementation option, you will receive investment reporting on a regular basis. This reporting will identify all transactions during the reporting period.	
<b>Annually</b>	Lynne Roger Jane	Portfolio Reviews – Together we will conduct annual meetings to review your portfolio results. If at any time you experience a change in your financial circumstances or life goals, we should discuss the implications that these changes may have on your investment portfolio.	