

# INVESTMENT POLICY STATEMENT

Prepared for:

**Jane Client**

14 December 2006

## **Joe Advisor**

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# **TABLE OF CONTENTS**

<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>Objectives</b> .....	<b>4</b>
Introduction .....	4
Risk Tolerance .....	4
Return Requirement .....	5
Your Portfolio Requirements.....	5
<b>Asset Allocation and Investments</b> .....	<b>6</b>
Introduction .....	6
Recommended Asset Allocation.....	6
Recommended Investments .....	6
<b>Monitoring, Rebalancing and Reporting</b> .....	<b>8</b>
Monitoring .....	8
Portfolio Perspective .....	8
Investment Perspective.....	8
Rebalancing.....	8
Reporting .....	8
<b>Roles and Responsibilities</b> .....	<b>10</b>
<b>Adoption</b> .....	<b>11</b>

# **INTRODUCTION**

The purpose of this Investment Policy Statement is to document your long-term financial goals and preferences and transform them into an investment portfolio which should enable you to meet these goals. The Investment Policy Statement also outlines the investment management procedures, as well as our individual roles, which should allow the portfolio to meet its objectives.

The main reason for developing a long-term investment policy, and for putting it in writing, is to enable you to protect your portfolio from ad hoc revisions to a sound long-term policy. An Investment Policy Statement will help you maintain a long-term approach when short-term market movements may be distressing and the policy is in doubt.

The development of your Investment Policy Statement follows these basic steps:

1. Determining your portfolio objectives by assessing your tolerance for risk and determining your return requirements,
2. Setting an appropriate asset allocation and choosing the best investments to fit into it,
3. Defining the monitoring, rebalancing, and reporting procedures for the portfolio,
4. Outlining each of our responsibilities in the process, and
5. Agreeing to this Investment Policy Statement by signing at the end.

# OBJECTIVES

## INTRODUCTION

When designing a portfolio, there are two primary considerations which describe the basic requirements of a portfolio – the return needed to achieve your goals and the risk you are willing to assume in to try to attain this return. The *Risk Tolerance and Return Requirements Questionnaire*, which you previously answered, gives an indication of your personal risk tolerance and the return you need in order to achieve your goals.

## RISK TOLERANCE

The risk tolerance component of the *Questionnaire* contains questions related to three main areas which, when combined, provides an overall indication of your risk tolerance. These sections are:

1. Your general view of risk,
2. Your background with respect to investments, and
3. Your future financial requirements.

General View of Risk	Your Answer	Score
<b>Question 3:</b> Which of the following statements most correctly describes your investment philosophy?	<i>"I prefer to invest in safer, lower return investments."</i>	3.3
<b>Question 4:</b> If your investment portfolio dropped by 15% after investing for six months, how might you react?	<i>"Hold my current portfolio allocation and remain focused on my investment goals."</i>	15.0
<b>Question 6:</b> Given the fluctuation in returns for these three portfolios and their ending values, which would you choose?	<i>"Portfolio C with a 10% average annual return and ending value of about \$258,000."</i>	15.0
<b>Question 8:</b> How do you feel about the risk of inflation eroding the purchasing power of your portfolio?	<i>"I am very concerned about the risk of inflation."</i>	5.0
<b>Question 9:</b> If your portfolio decreases in value because of unfavourable market conditions, how many years are you willing to wait for your portfolio to recover its value?	<i>"I'm willing to wait 1 to 3 years for my portfolio to recover its value."</i>	10.0

Background with Respect to Investments	Your Answer	Score
<b>Question 1:</b> Do you worry about what is happening with your investments?	<i>"Sometimes"</i>	5.0
<b>Question 2:</b> What do you consider to be the riskiest type of investment you have bought over the last few years?	<i>"Futures and/or Options."</i>	7.5
<b>Question 7:</b> Which statement best describes your investment knowledge?	<i>"I have limited knowledge and rely exclusively on my financial advisor."</i>	0.0

Your Future Financial Requirements	Your Answer	Score
<b>Question 5:</b> How would you describe your flexibility in meeting your financial goals?	<i>"I must meet my financial goals within my specific timeframe."</i>	0.0
<b>Question 10:</b> Would you use your savings in this investment portfolio to purchase items you require, or to help with unexpected expenses?	<i>"No"</i>	10.0
<b>TOTAL</b>		<b>71.0</b>

Overall, your risk tolerance score of 71.0 indicates that your risk tolerance is Moderately Aggressive. This risk tolerance will be reconciled with your return requirement to guide the asset allocation decision.

## RETURN REQUIREMENT

The return requirement component of the *Questionnaire* contains questions related to your current financial situation and your future financial goals. These two aspects are combined to generate an approximate rate of return that your portfolio will have to generate in order for you to meet your financial goals. Your responses to the questions are as follows:

Current Financial Situation	Your Answer
Current value of investments	\$200,000
Amount being added each year	\$24,000
For this many years	16 year(s)
Indexed to inflation	True

Your current financial situation and objectives will require a rate of return of approximately 8.4% per year. This rate of return would generally be regarded as Moderately Aggressive. This return requirement will be reconciled with your risk tolerance to guide the asset allocation decision.

## YOUR PORTFOLIO REQUIREMENTS

From the previous sections, your risk tolerance was determined to be Moderately Aggressive, and your return requirement was determined to be Moderately Aggressive. The questionnaire indicates that your capacity for risk is about what is needed to meet your financial goals. After some discussion, it was agreed that the AB Medium Moderately-Aggressive portfolio would be most appropriate in reconciling your risk tolerance and return requirement. This portfolio will be used in the next section when setting your asset allocation and choosing your investments.

# ASSET ALLOCATION AND INVESTMENTS

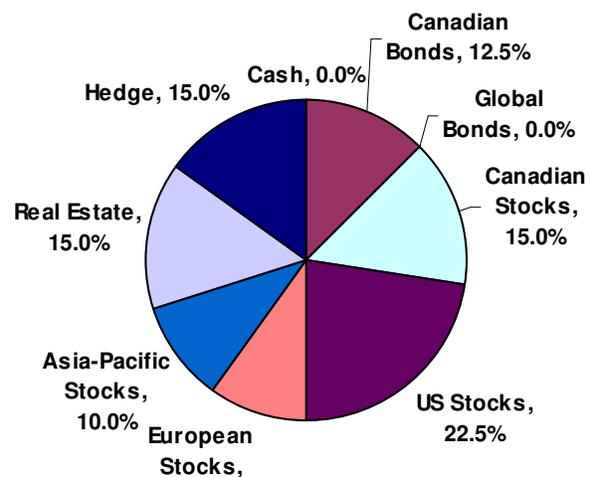
## INTRODUCTION

The underlying approach to the management of your portfolio is to try to maximize your return while maintaining a level of risk appropriate to your portfolio requirements. Choosing the right combination of asset classes, a process known as Asset Allocation, is the first step in putting together your portfolio. Once the combination of asset classes for your portfolio has been determined, investments are chosen which fit into each asset class.

## RECOMMENDED ASSET ALLOCATION

Your Portfolio Requirements, outlined in the previous section, indicate that a Mid Moderately-Aggressive asset allocation would best enable you to meet your financial goals within your risk tolerance limits. The allocation is as follows:

Asset Class	Percent
Cash	0.0%
Canadian Bonds	12.5%
Global Bonds	0.0%
Canadian Stocks	15.0%
US Stocks	22.5%
European Stocks	10.0%
Asia-Pacific Stocks	10.0%
Real Estate	15.0%
Hedge	15.0%
	<b>100%</b>



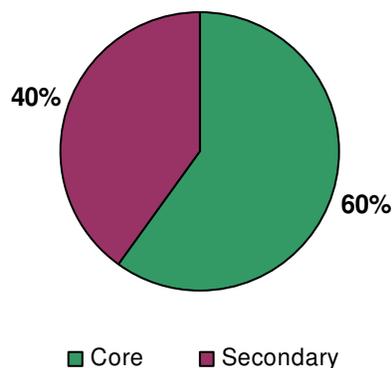
This asset allocation is diversified across 7 different asset classes in Canada and around the world. It is expected that this asset allocation would provide good longer-term growth potential through its exposure to stocks and alternative investments but also offer a bit of security through its exposure to bonds..

## RECOMMENDED INVESTMENTS

Given the current value of your portfolio, the following investments are recommended to best match the asset allocation above. Investments may not match up exactly to a single asset class since many investments cover a number of asset classes. For example, a global equity fund may have investments in Canadian Stocks, U.S. Stocks, European Stocks, and Asia-Pacific stocks. In this situation, it is expected that the underlying investments in all the funds will approximate the recommended asset allocation. Each investment is also marked as Core or Secondary. Core investments are consistent in their investment approach and cover broad areas of the market. Secondary investments may act far differently from the market and are mainly used to enhance returns or reduce the risk of a portfolio.

Asset Class	Investment	Percent	CORE
Canadian Bond	Canadian Bond Fund #2	10.0%	<b>CORE</b>
Canadian Equity	Canadian Equity Fund - Core	10.0%	<b>CORE</b>
Canadian Income <b>Balanced</b>	Canadian Income Fund	7.5%	Secondary
Global Equity	Global Equity Fund - Core	25.0%	<b>CORE</b>
	Global Equity Fund	17.5%	Secondary
Real Estate	Real Estate Fund - Core	15.0%	<b>CORE</b>
Alternative Strategies	Hedge Fund - Conservative	15.0%	Secondary
		<b>100.0%</b>	

It is always prudent to ensure that a good proportion of the investments in a portfolio are Core Investments. In the case of your portfolio, the level of Core Investments should usually exceed 60% and is presently at 60%.



The asset allocation and investments will be monitored and adjusted as per the methodology outlined in the next section.

# **MONITORING, REBALANCING AND REPORTING**

## **MONITORING**

Your portfolio will be monitored regularly from a portfolio perspective and an investment perspective to ensure that it is performing as desired according to this Investment Policy Statement.

### **PORTFOLIO PERSPECTIVE**

To see how the portfolio is performing as a whole, it needs to be compared to an appropriate benchmark made up of common market indices. For your portfolio, the benchmark will be made up of the following market indices which correspond to your recommended asset allocation:

<b>Asset Class</b>	<b>Benchmark</b>	<b>Percent</b>
Cash	T-Bill Index	0.0%
Canadian Bonds	Canadian Bond Index	12.5%
Canadian Stocks	Canadian Stock Index	15.0%
US Stocks	US Stock Index	22.5%
European Stocks	European Stock Index	10.0%
Asia-Pacific Stocks	Asia-Pacific Stock Index	10.0%
Real Estate	Real Estate Index	15.0%
Hedge Funds	Hedge Fund Index	15.0%

It is expected that your portfolio will have similar risk/return characteristics to this benchmark. If your portfolio appears to be deviating substantially from this benchmark, changes may have to be made to the recommended asset allocation, recommended investments, or the benchmark itself.

### **INVESTMENT PERSPECTIVE**

To see how the individual investments are performing, they will be screened regularly depending upon the type on investment:

- Mutual funds, exchange-traded funds, and other pooled products will be analyzed using a statistical methodology known as “style analysis” which enables one to see if a manager is adding value to the investment process and whether he is maintaining an investment style appropriate for your portfolio.
- Individual securities will be analyzed by referring to Your Company’s published research reports.

Investments requiring changes will be replaced with other investments which better meet the requirements of this Investment Policy Statement.

## **REBALANCING**

To ensure that your portfolio maintains the investment allocation that was outlined in the previous section, it will need to be rebalanced from time to time. Every investment has its time when it performs well and its time when it performs poorly. Rebalancing your investments in this manner should help enhance returns by continually selling off a part of the best performing investments and reallocating the proceeds to the poorer performing ones.

While rebalancing is necessary to keep your portfolio on track, transaction costs can sometimes make rebalancing not cost effective. If the benefits of rebalancing are outweighed by the costs, rebalancing may be deferred until a more appropriate time

## **REPORTING**

You will receive reporting from two different sources – from Your Company and from Joe Advisor.

**From Your Company**

Your Company is required by law to send you certain pieces of information on a regular basis, such as monthly or quarterly statements and tax receipts. This information is the official record of your dealings with Your Company and should be retained in your records.

**From Joe Advisor**

Joe Advisor will provide reports to you on a regular basis. Various reporting formats are available which illustrate how your portfolio is performing and how closely it is adhering to the recommended asset allocation

As a matter of course, Joe Advisor shall keep you apprised of any material changes in the recommended asset allocation, recommended investments, or other items relevant to you. In addition, Joe Advisor shall meet with you yearly to review and explain the Portfolio's investment results and any related issues. Joe Advisor will also be available on a reasonable basis for telephone communication when needed.

# **ROLES AND RESPONSIBILITIES**

## **JOE ADVISOR**

Joe Advisor is expected to manage the Portfolio in a manner consistent with this Investment Policy Statement and in accordance with federal laws, provincial laws, industry regulations, company policy, and the terms and conditions contained in the New Client Application Form and related documents. Joe Advisor shall act as the investment advisor to the Investor until the Investor decides otherwise.

Joe Advisor shall be responsible for:

- Designing, recommending and implementing an appropriate asset allocation plan consistent with what has been outlined in this statement.
- Advising the Investor about the selection of and the allocation of asset categories.
- Identifying specific assets and investment managers within each asset category.
- Monitoring the performance of all selected assets.
- Recommending changes to any of the above.
- Periodically reviewing the suitability of the investments for the Investor; and being available at such other times within reason at the Investors request.
- Preparing and presenting appropriate reports.

Joe Advisor will not exercise discretionary control over any of the Investor's assets. Joe Advisor shall be responsible only to make recommendations to the Investor and to implement investment decisions as directed by the Investor.

## **JANE CLIENT**

Jane Client shall be responsible for:

- The oversight of the Portfolio.
- Defining the investment objectives and policies of the Portfolio.
- Directing Joe Advisor to make changes in investment policy and to oversee and to approve or disapprove Joe Advisor's recommendations with regards to policy, guidelines, objectives and specific investments on a timely basis.
- Jane Client shall provide Joe Advisor with all relevant information on Jane Client's financial conditions and risk tolerances and shall notify Joe Advisor promptly of any changes to this information.
- Jane Client shall read and understand the information contained in the prospectus for each investment in the Portfolio.

# ADOPTION

Adopted by:

\_\_\_\_\_  
Jane Client

\_\_\_\_\_  
Joe Advisor

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date