



COLUMBIA BASIN TRUST  
*a legacy for the people*

# COLUMBIA BASIN TRUST

## STATEMENT OF INVESTMENT POLICIES & PROCEDURES

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## OVERVIEW AND GOVERNANCE

### 1.1 Purpose

The purpose of this Statement of Investment Policies & Procedures is to establish a framework such that the Assets are managed to achieve the objectives of the Columbia Basin Trust (CBT) Investment Program.

### 1.2 Investment Assets Profile

Through the Binding Agreement dated July 27, 1995, the Province of BC endowed CBT with \$321 million, \$276 million of which was initially restricted to investments in regional hydroelectric projects with the remaining \$45 million available for broader investment. An additional \$32 million in 16 annual installments of \$2 million is provided for operations in the developmental years. The final payment will be made in 2010.

Revenue generated from the Assets is available for the Delivery of Benefits Program, corporate operating expenses, as well as further investment.

### 1.3 Investment Beliefs

- (i) CBT believes future generations should benefit from the same level of support as current residents. To preserve this legacy, investment policies and granting/spending policies should be aligned to result in retention of sufficient funds to offset the effects of inflation in the long term.
- (ii) CBT's priority is investment opportunities in the Canadian portion of the Columbia River (Basin); however, given the limitations of investing in a relatively small region, it is expected a portion of the Assets will be maintained in Market Securities.
- (iii) CBT believes the best performing and most profitable investments are those that maintain high ethical and environmental standards, and commit to the principles of strong corporate governance.
- (iv) CBT believes in the principles of a Prudent Investor and requires a rate of investment return commensurate with the level of risk assumed.
- (v) CBT recognizes that managing investment risks is just as important as generating returns.
- (vi) CBT recognizes the benefits of asset diversification and adopts the objective in principle; however, further recognizes the benefits may be constrained by the large investment in Power Projects.
- (vii) CBT values financial partnerships and, when possible, will undertake investments in cooperation with other organizations.

## 1.4 Governance

**1.4.1** Management of the Assets must be consistent with the *Columbia Basin Trust Act, 1995* Binding Agreement, Columbia Basin Management Plan, and various power-related Joint Venture Agreements.

### 1.4.2 Board of Directors:

- (i) The Board is responsible for the Assets of CBT as well as adopting a Statement of Investment Policies & Procedures that sets forth a general framework for investment and management of the Assets. In establishing or amending policy the Board will address, but is not limited to, the following:
  - (a) investment objectives
  - (b) risk tolerance
  - (c) constraints and guidelines on investments
  - (d) asset ranges and suitable classes of investments
  - (e) governance
  - (f) delegation of authority
- (ii) The Board will provide for and receive a regular and consistent review of investment performance, operation, and compliance with the policies established in this Statement of Investment Policies & Procedures.
- (iii) The Board is responsible for approving all new investments in excess of \$5,000,000. This responsibility extends to increases in existing investments that would result in a total new investment in excess of \$5,000,000, but does not include placements or redemptions to the Market Securities portfolio.
  - (a) In executing their approval authority, the Board will require the prior recommendation of the Investment Committee and Investment Staff.
- (iv) The Board is responsible for establishing and approving the Terms of Reference of the Investment Committee.

### 1.4.3 Investment Committee:

- (i) The Investment Committee is responsible for making recommendations to the Board on matters such as investment policy, governance, administration, investments in excess of \$5,000,000, as well as other investment related issues outlined in the Investment Committee Terms of Reference.
- (ii) The Investment Committee will assume all other duties as directed by the Board.
- (iii) The Investment Committee has the authority to approve all new investments in excess of \$500,000 to a maximum of \$5,000,000. This responsibility extends to increases in existing investments that would result in a total new investment in excess of \$500,000 but less than \$5,000,000, but does not include placements or redemptions to the Market Securities portfolio.
- (iv) The Investment Committee is responsible for reviewing, and should they see fit,

recommending all new investments in excess of \$5,000,000 to the Board for approval.

- (a) In executing their approval authority, the Investment Committee will require the prior recommendation of Investment Staff.

#### 1.4.4 Investment Staff:

- (i) Investment Staff are responsible for identifying, researching, and recommending investment opportunities consistent with the statement of Investment Policies & Procedures.
- (ii) Investment Staff will select, monitor, and if required, dismiss the External Investment Manager.
- (iii) When selecting, monitoring or administering investments, Investment Staff will exercise due diligence in a manner consistent with a Prudent Investor.
- (iv) Investment Staff are responsible for approving all new investments to a limit of \$500,000. This responsibility extends to increases in existing investments that would result in a total new investment less than \$500,000.
- (v) Investment Staff are responsible for approving all new placements or redemptions to the Market Securities portfolio.
- (vi) Investment Staff are responsible for reviewing, and should they see fit, recommending all new investments in excess of \$500,000 to the Investment Committee and/or Board, subject to their respective approval authority limits.

#### 1.4.5 Accounting Staff:

- (i) Accounting Staff are responsible for the calculation and confirmation of financial performance in accordance with sections 3.1.1, 3.2.1 and 3.3.1 of this policy.
- (ii) No less frequently than annually, the data that is used to calculate the financial performance results will be audited by CBT's external auditor to ensure conformance with the reporting standards identified in sections 3.1.1, 3.2.1 and 3.3.1 of this policy.

#### 1.4.6 External Investment Manager:

- (i) The External Investment Manager will invest the Market Securities in accordance with this Statement of Investment Policies & Procedures.
- (ii) The External Investment Manager will provide Investment Staff with transaction and holdings information monthly.
- (iii) The External Investment Manager will meet with Investment Staff as required, but at least annually, to provide written reports regarding past performance, future strategies and economic outlook.
- (iv) The External Investment Manager will comply with all statutory and regulatory requirements and will file quarterly compliance reports where required by section 3.4.1 (i).
- (v) Where investment is made via a Pooled Fund, the External Investment Manager will provide Investment Staff with copies of each Pooled Fund's audited financial statements.

## INVESTMENT ALLOCATION

### 2.1 Investment Objective

- (i) The objective of the Investment Program is to generate a predictable, sustainable and appreciating income stream to fund CBT's current and future Delivery of Benefits obligations and corporate operating expenses.
- (ii) To achieve this objective, the Board has recognized three general categories of investment:
  - (a) Power Projects
  - (b) Private Placements
  - (c) Market Securities

### 2.2 Power Projects

**2.2.1** CBT's contractual commitment to regional hydroelectric Power Projects is described in the 1995 Binding Agreement between CBT and the Province of BC. The Binding Agreement details CBT's obligation to investigate, and if commercially viable, construct and operate, the Power Projects in accordance with the terms of various Joint Venture Agreements.

**2.2.2** CBT's investment in Power Projects may be by way of equity, debt or a combination of these two investment structures.

**2.2.3** Subject to satisfying the contractual commitments outlined in section 2.2.1, CBT may pursue other power project investment opportunities located in the Columbia Basin. Should such an opportunity(ies) arise, it would be subject to the same diligence and feasibility tests as the committed Power Projects.

#### **2.2.4 Derivatives:**

- (i) Derivatives may be used for risk management, including the hedging of foreign currency, interest rate or commodity price risks.
- (ii) The use of derivatives for speculative or leveraging purposes is prohibited.

#### **2.2.5 Leverage:**

- (i) Borrowed Funds may be used to lever investments in Power Projects in a manner consistent with market practice.
- (ii) The maximum amount of Borrowed Funds is established at a level that supports a credit rating of BBB low or higher as confirmed by Dominion Bond Rating Service, or an equivalent rating from another recognized credit agency.
- (iii) The restrictions of section 2.2.5 (ii) apply to debt incurred on an individual Power Project basis as well as the combined portfolio of all Power Projects.

## 2.3 Private Placements

2.3.1 Private Placements include any direct investment in a Basin-based commercial entity. The investment may be by way of equity, debt or a combination of these two investment structures.

### 2.3.2 Ineligible Investments:

- (i) Businesses that operate, or have a history of operating, in breach of environmental legislation.
- (ii) Businesses that generate a material percentage of their revenue from activities inconsistent with the values of CBT.
- (iii) Businesses that maintain the majority of their staff, or their main office, outside the Columbia Basin. For greater clarity, CBT may choose to partner with an entity from outside the Columbia Basin for purposes of investing in a Basin based enterprise.

### 2.3.3 Concentration Limits:

- (i) No new investment will be undertaken that would represent more than 10% of CBT's Unrestricted Net Assets.
- (ii) Investments in Real Estate are limited to 25% of CBT's Unrestricted Net Assets.
- (iii) Investments whose performance is directly linked to the Hospitality Industry are limited to 25% of CBT's Unrestricted Net Assets.
- (iv) Should a circumstance arise that would result in the concentration limits being exceeded, Investment Staff will immediately undertake a review of the investment to determine whether CBT's commitment could be reduced. If such a reduction is not possible or would have an immediate negative impact, Investment Staff have the authority to continue managing the investment on the understanding no further advances will be made, unless contractually committed, until the concentration limit is restored.

### 2.3.4 Derivatives:

- (i) Derivatives may be used for risk management, including the hedging of foreign currency, interest rate or commodity price risks.
- (ii) The use of derivatives for speculative or leveraging purposes is prohibited.

### 2.3.5 Leverage:

- (i) Borrowed Funds may be used to lever investments in Private Placements in a manner consistent with market practice.

## 2.4 Market Securities

2.4.1 Market Securities include the universe of financial instruments available for purchase and sale on recognized Canadian or international exchanges and trading desks.

2.4.2 An External Investment Manager will be engaged to assist in implementing the following market security asset mix and will have the discretion to adjust investment class exposure within the policy range identified below:

Investment Class	Policy Range		Target Asset Mix
	Minimum	Maximum	
Cash/Money Market	5%	15%	10%
Canadian Dollar Bonds	20%	40%	30%
<b>Fixed Income</b>			<b>40%</b>
Canadian Equities	20%	40%	30%
US Equities	10%	20%	15%
EAFE Equities	10%	20%	15%
<b>Total Equities</b>			<b>60%</b>

2.4.3 To implement the asset mix, the External Investment Manager may invest in Pooled Funds, as well as segregated funds, mutual funds, unit trusts, limited partnerships and similar vehicles. It is recognized that Pooled Funds have their own policy statements which could be revised from time to time on behalf of all Pooled Fund participants. As a result, certain elements or policies in Pooled Funds may potentially conflict with this Statement of Investment Policies & Procedures (SIPP). However, the External Investment Manager is required to notify CBT of any breaches of this SIPP in accordance with section 3.4.1(i). Where there is a conflict with this SIPP and any Pooled Fund policy, the Fund may remain invested in that Pooled Fund, unless otherwise directed by CBT.

2.4.4 The External Investment Manager is permitted to invest in Canadian Small Cap, US Small Cap and Non-North American Small Cap equities to a maximum of 20% of the amount allocated to Canadian, US and EAFE equities respectively.

2.4.5 The External Investment Manager may lend securities, or participate in Pooled Funds that lend securities provided that:

- (i) As a minimum, the market value of collateral should be equal to 105% of the market value of the lent securities;
- (ii) The loan and collateral are valued daily on a “mark to market” basis;
- (iii) The collateral consists of highly liquid and marketable securities; and
- (iv) Both the collateral and borrowers have been approved by the External Investment Manager.

## 2.5 Market Security Investment Class Policies

### 2.5.1 Cash/Money Market Policies:

- (i) Includes instruments with a term to maturity of no greater than 15 months.
- (ii) Holdings may be in:
  - (a) Securities issued or guaranteed by federal, provincial or municipal governments within Canada.
  - (b) Non-rated debt issued by financial institutions that are insured by either the Canadian Deposit Insurance Corporation or the Credit Union Deposit Insurance Corporation of British Columbia.

### 2.5.2 Canadian Dollar Bond Policies:

- (i) At least 50% of the Canadian bonds will be in securities issued or guaranteed by the federal, provincial or a municipal government within Canada.
- (ii) Publicly traded bonds, other than bonds issued or guaranteed by governments within Canada, when purchased must be rated BBB low or higher by Dominion Bond Rating Service or have an equivalent credit rating from another recognized credit agency. If a holding is downgraded to below a BBB low rating, the External Investment Manager will immediately review the downgraded bond and determine whether to sell this bond or hold to sell at a more appropriate time.
- (iii) Not more than 10% of bond holdings will be in any one issuer or its related issuers. This restriction does not apply to bonds issued or guaranteed by the federal government.
- (iv) Bonds, debentures or any related fixed income instrument issued by a Related Party are restricted from investment.

### 2.5.3 Equity Policies:

- (i) Equity investments consist of publicly traded common and preferred shares, convertible debentures, installment receipts, warrants, income trust units, common stock equivalents, exchange traded funds and equivalent exposures using derivatives.
- (ii) Not more than 5% of the total equity holdings will be in the shares of any one issuer or its related issuers.
- (iii) Pursuant to section 1.3 (iii), favourable consideration is to be given by the External Investment Manager to investment opportunities in corporations which maintain high ethical and environmental standards and demonstrate a commitment to the principles of strong corporate governance.
- (iv) CBT may delegate its voting rights to the External Investment Manager and when it does, will instruct the External Investment Manager to act in the best interests of CBT, subject to the External Investment Manager's fiduciary duty to other clients. The goal of this proxy voting process is to influence corporate behaviours and encourage change when they do not meet the expected standards as outlined in section 2.5.3 (iii).

### 2.5.4 Derivatives:

- (i) Derivatives may be used for risk management including the hedging of foreign currency exposure. They may also be used as a substitute for more traditional investments when doing so would reduce transaction costs. Use of derivatives will be collateralized by cash or cash equivalents, including Pooled Fund units. The mark to market value of all security positions and cash holdings must be positive.
- (ii) The use of derivatives for speculative or leveraging purposes is prohibited.

### 2.5.5 Leverage:

- (i) The External Investment Manager may not sell securities short, borrow securities or purchase securities on margin.

## PERFORMANCE OBJECTIVES AND REPORTING

### 3.1 Power Projects

3.1.1 The performance measure for Power Projects will be Cash Based Return on Investment.

### 3.2 Private Placements

3.2.1 The performance measure for Private Placements will be Cash Based Return on Investment.

### 3.3 Market Securities

3.3.1 The performance measure for Market Securities will be return on investment calculated in accordance with the CFA Institute's *Global Investment Performance Standards (GIPS®)*.

### 3.4 Reporting

- 3.4.1 No less frequently than quarterly, Investment Staff will present a Statement of Investment Performance to the Investment Committee and the Board that includes the following:
- (i) Compliance report that either confirms adherence to this Statement of Investment Policies & Procedures, or describes in detail identified breaches of policy.
  - (ii) Position of investment in each of the three general categories of investment.
  - (iii) Quarterly, fiscal year-to-date and year-over-year performance of each of the general categories of investment, measured in accordance with provisions 3.1.1, 3.2.1, and 3.3.1.
  - (iv) Commentary addressing high risk or underperforming investments.
  - (v) Commentary addressing material deviations from performance benchmarks.

### 3.5 Annual Performance Objectives

Asset Class	Category Performance Objective
Power Projects	8%
Private Placements	8%
Market Securities	6%

## ADMINISTRATION AND CODE OF CONDUCT

### 4.1 Code of Conduct

For purposes of defining affected persons:

#### Category A

- (i) any Board member;
- (ii) any Investment Committee member; and
- (iii) Investment and Accounting Staff.

#### Category B

- (i) Investment and Accounting Staff;
- (ii) External Investment Manager(s); and
- (iii) any other advisor or consultant engaged by the above to provide investment advisory services.

**4.1.1** Individuals under Category A are obligated to adhere to the Code of Conduct for Directors of Columbia Basin Trust or the Columbia Basin Trust Employee Code of Conduct Policy, as applicable. These standards address issues that include, but are not limited to, compliance with the law, conflicts of interest, disclosure, outside business interests, confidential information, investment activity, outside employment or associations, entertainment, gifts and favours, use of CBT's property and corporate responsibility.

**4.1.2** Individuals under Category B are obligated to adhere to the CFA Institute's *Code of Ethics and Standards of Professional Conduct* as amended from time to time. These standards include, but are not limited to, fundamental responsibilities, relationship with and responsibilities to the investment profession, the employer, Basin residents and the investing public.

**4.1.3** For greater clarity, Investment Staff are obligated to adhere to the standards of 4.1.1 and 4.1.2. Should a circumstance arise that would result in the two standards suggesting a different level of responsibility, the stricter standard will apply.

### 4.2 Statement of Investment Policies & Procedures Review

**4.2.1** This Statement of Investment Policies & Procedures will be reviewed by the Board at least once every two fiscal years, but otherwise, whenever a major change is necessary. Such a review may be caused by:

- (i) A fundamental change in the risk tolerance of the Board;
- (ii) Shortcomings in the Statement of Investment Policies & Procedures that emerge in its practical application, or substantive modifications that are recommended to the Board; or
- (iii) Changes in governing legislation.

## EXTERNAL INVESTMENT MANAGER SELECTION

### 5.1 Selection of an External Investment Manager

5.1.1 In the event a new External Investment Manager must be selected, or an additional External Investment Manager added to the existing External Investment Manager, Investment Staff will undertake an External Investment Manager search.

### 5.2 Monitoring of an External Investment Manager

5.2.1 Evaluation of the External Investment Manager will be conducted annually and will include measurement and comparison of returns to comparable public index benchmarks as may be described in any external investment management agreement.

5.2.2 Quarterly performance reports will be reviewed by Investment Staff.

5.2.3 No less frequently than annually, Investment Staff will meet with the External Investment Manager to discuss past performance, investment strategy and economic outlook. Investment Staff will also review the External Investment Manager's staff turnover, consistency of style, succession planning and record of service and compliance with this Policy.

### 5.3 Dismissal of an External Investment Manager

5.3.1 Reasons for considering the termination of the services of an External Investment Manager include, but are not limited to, the following:

- (i) Performance results which are consistently below the stated performance benchmarks described in any external investment management agreement.
- (ii) Changes in the overall structure of the Assets such that the External Investment Manager's services are no longer required.
- (iii) Changes in key personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk of the Market Securities portfolio.
- (iv) Failure to adhere to this Statement of Investment Policies & Procedures, and/or any external investment management agreement.

## GLOSSARY OF TERMS

**Accounting Staff:** CBT staff directly responsible for the accounting function.

**Assets:** The original endowment to CBT, as described in the 1995 Binding Agreement, as well as subsequent investments, including interest and return earned thereon.

**Basin:** The southeastern corner of British Columbia specifically defined as “Region” by the *Columbia Basin Trust Act*.

**Binding Agreement:** The 1995 agreement between CBT and the Province of BC describing the funding of CBT, how money will be allocated to the region and how income earned from investments will be shared between the partners.

**Board of Directors/Board:** A 12-member governing body consisting of Columbia Basin residents.

**Borrowed Funds:** Funds borrowed from a financial institution, private enterprise or level of government that must be repaid in full, usually in installments at a prescribed rate of interest.

**Cash Based Return on Investment:** A methodology for calculating financial returns that includes only net cash payments received, without consideration to changes in the value of the asset.

**Columbia Basin Management Plan:** A guiding document describing CBT’s objectives, priorities and programs.

**Delivery of Benefits Program:** The collection of programs through which CBT delivers grants and service programs to Basin residents.

**EAFE:** A term applied to the European, Australasia, and Far East markets.

**External Investment Manager:** An independent investment firm selected by CBT to manage the Market Securities.

**Hospitality Industry:** General term applied to the hotel, restaurant, entertainment, recreation and leisure industries.

**Investment Committee:** A committee of Board members responsible for the governance and management of CBT investments.

**Investment Program:** Coordinates the overall direction and monitoring of CBT investments.

**Investment Staff:** CBT staff directly responsible for the management of the Assets.

**Joint Venture Agreements:** Agreements covering Columbia Basin Trust and Columbia Power Corporation joint venture participation in Power Projects.

**Market Securities:** Publicly traded financial instruments available for purchase and sale on recognized financial exchanges or trading desks.

**Pooled Fund:** A fund through which a number of investors pool their money in order to invest in a portfolio of assets.

**Power Projects:** Hydroelectric projects as described in the 1995 Binding Agreement, as well as the Brilliant Dam.

**Private Placements:** That portion of CBT's investment portfolio invested directly in Basin based businesses.

**Prudent Investor:** An investor with a fiduciary obligation to exercise reasonable care, skill, and caution in making and implementing investment decisions.

**Real Estate:** An investment that generates a return directly linked to the performance of real property.

**Related Party:** A person or entity under common control or influence of CBT.

**Small Cap:** Companies with a market net worth between \$300 million and \$2 billion.

**Statement of Investment Performance:** Statement outlining the financial performance of the Assets.

**Unrestricted Net Assets:** The net value of CBT Assets not otherwise restricted to Power Projects.



**HEAD OFFICE/SOUTHWEST BASIN**

Suite 300, 445 13th Avenue  
Castlegar, BC V1N 1G1

1.800.505.8998 / 250.365.6633  
cbt@cbt.org

**NORTHEAST BASIN OFFICE**

Box 393, 512 8th Avenue North  
Golden, BC V0A 1H0

1.800.505.8998 / 250.344.7065  
golden@cbt.org

**NORTHWEST BASIN OFFICE**

Box 220, 220 Broadway  
Nakusp, BC V0G 1R0

1.800.505.8998 / 250.265.9936  
nakusp@cbt.org

**SOUTHEAST BASIN OFFICE**

828D Baker Street  
Cranbrook, BC V1C 1A2

1.800.505.8998 / 250.426.8810  
cranbrook@cbt.org

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