



COAST
FUNDS

COAST ECONOMIC
DEVELOPMENT
SOCIETY

INVESTMENT GUIDELINES

SEPTEMBER 2021

A gyaaGang monumental pole raised in 2017 in honour of the ancestors who occupied Tlieleng H'iellen Village Site beside Hl'yaalang Gandlee, the river that runs beside Taaw Tow Hill, Haida Gwaii

PHOTO BY
Brodie Guy



Investment Guidelines

Coast Funds | Coast ECONOMIC DEVELOPMENT SOCIETY

BACKGROUND

- 1.1 The Coast Economic Development Society (“Fund”) was created to support and create environmentally sound and sustainable economic development for First Nations.
- 1.2 The Board of Directors of the Society (“Board”) has overall responsibility for the Fund.
- 1.3 The Statement of Investment Policy (“Policy”) adopted by the Board documents the policies for the management of the Fund.
- 1.4 The Investment, Finance and Audit Committee (“Committee”) established by the Board is responsible for developing, reviewing and monitoring detailed guidelines and constraints for the management of the Fund investments, referred to as the Investment Guidelines (“Guidelines”).
- 1.5 This document constitutes the Guidelines.

PERMITTED CATEGORIES OF INVESTMENT

- 2.1 Section 1.20 to 1.22 of the Policy sets out the rules for permitted investment in asset classes and the process for adding new asset classes.
- 2.2 The permitted categories of investments are:
 - (a) equities, including common and preferred shares, income trusts, warrants, rights, instalment receipts and convertible debentures, all of which may be issued by Canadian issuers, and Depository Receipts of companies based outside Canada and the United States;
 - (b) debt securities of Canadian and non-Canadian issuers, issued in Canadian currencies, including sovereign, provincial, municipal and corporate bonds, debentures, mortgages, mortgage-backed securities, asset-backed securities, notes and other debt instruments;
 - (c) interest-bearing cash and cash equivalents, including guaranteed investment contracts or term deposits with banks, trust companies or insurance companies;
 - (d) forward contracts, futures or options solely for the purposes and subject to the constraints set out in paragraphs 4.18; and
 - (e) unitized pooled funds or mutual funds consisting of eligible investments in the above categories, managed in accordance with the guidelines and constraints as set out in Section 4.



FUND STRUCTURE

INVESTMENT MANAGEMENT STRUCTURE

3.1 The Committee has established the following investment management structure:

Investment Manager	Total
ACM Advisors	55%
Leith Wheeler	45%
Total	100%

3.2 In the event that the total allocation to an investment manager at the end of a quarter is more than 10% higher or lower than the total allocation set out in paragraph 3.1, the Chair of the Committee will instruct staff to reallocate the assets to the percentages set out in the “Total” column.

ASSET MIX

3.3 The asset mix of the Fund shall at all times be maintained within the following ranges:

<u>Asset Class</u>	<u>Minimum</u>	<u>Benchmark</u>	<u>Maximum</u>
Fixed Income	35%	45%	55%
Mortgages	45%	55%	65%
Short-Term Investments	0%	0%	5%

3.4 In the event that the allocation to an asset class at the end of a quarter is outside of the range of the minimum and maximum as set out in paragraph 3.3, the Chair of the Committee will instruct staff to reallocate the assets to the percentages set out in the “Total” column in paragraph 3.1 and direct the investment managers to reallocate their assets in accordance with paragraph 3.1.

3.5 Cash disbursements from the Fund are to be funded from one or a combination of investment managers and asset classes, as determined by Coast’s CFO and confirmed by the Fund’s investment advisor, to maintain compliance with paragraphs 3.1, 3.2, 3.3, and 3.4. In the event that Coast’s CFO and the Fund’s investment advisor do not agree on the investment manager or asset class allocation, the decision shall be referred to the Chair of the Committee.

INVESTMENT MANAGER MANDATES

3.6 The Committee has established mandates for each Investment Manager, as set out in Appendix A.

3.7 The Committee shall monitor the performance of the Investment Managers in accordance with Section 6, and shall recommend to the Board any changes in Investment Managers as the Committee deems in the best interest of the Fund.



GUIDELINES AND CONSTRAINTS

APPLICATION OF GUIDELINES AND CONSTRAINTS

- 4.1 All investments shall conform to the Constitution, the Policy, these Guidelines and any applicable law and regulations
- 4.2 Investment Managers shall not invest in any assets that are not in an approved category of investment.
- 4.3 All securities shall be purchased through normal public market facilities, unless the purchase price approximates the prevailing market price and is negotiated on an arm's length basis.
- 4.4 The Fund shall be invested in accordance with the Environmental, Social and Governance standards set out in the Policy.
- 4.5 The Committee has the responsibility for making recommendations to the Board on any additional screens that may incorporate either positive or negative elements.
- 4.6 The Fund will be invested in individual securities, and not in pooled funds or mutual funds, unless otherwise specifically permitted in writing by the Chair.

FIXED INCOME AND CASH EXCLUDING MORTGAGES

- 4.7 All investments in Canadian fixed income securities shall be in securities that are subject to regular price quotations by recognized investment dealers in Canada and for which ratings are available for the borrower or the debt issuer.
- 4.8 The duration of the fixed income portfolio, including cash, will be maintained within a band of 0-5 years.
- 4.9 No more than 8% of a fixed income portfolio shall be invested in debt issues of any one corporate or municipal issuer rated AA or above by the Dominion Bond Rating Service ("DBRS") or equivalent service; no more than 6% of a fixed income portfolio shall be invested in debt issues of any one corporate or municipal issuer rated A by the DBRS or equivalent service.
- 4.10 At least 25% of a fixed income portfolio will be invested in Government of Canada, Canadian Indigenous-supportive governmental organizations (such as First Nation Finance Authority), or Government of Canada guaranteed issues rated A or above by the DBRS or equivalent service. Ownership of Canadian Indigenous-supportive governmental bonds (such as First Nation Finance Authority bonds) in the fixed income portfolio is preferred as it aligns with the organization's purpose and values. No more than 40% of a fixed income portfolio will be invested in the bonds or other fixed income assets of corporations.
- 4.11 No more than 30% of a fixed income portfolio shall be invested in debt issues of corporate or municipal issuers with an A rating. No part of a fixed income portfolio shall be invested in debt issues of issuers with a BBB or lower rating. A minimum AA- average portfolio rating will be maintained at all times.



- 4.12 All Short-Term investments, including Canadian cash equivalents and Short-Term commercial paper, having a maturity of one year or less, shall be rated minimum R-1 Low by the DBRS, an equivalent rating from another agency, or, where not rated, an equivalent level as determined by the market.
- 4.13 No more than 5% of the market value of the Short-Term investments may be invested in the commercial paper of any one single issuer except in the case of paper of, or guaranteed by, one of the five major chartered banks.

MORTGAGES

- 4.14 All investments in mortgages must be in a pooled fund.

OTHER LIMITATIONS

- 4.15 Investment Managers shall not purchase securities on margin or engage in short sales.
- 4.16 No entity, including the Board, the Committee, the Investment Managers, or any member of such entity may lend, pledge or otherwise encumber any of the Fund's assets.
- 4.17 Investment Managers may not create exposure in currencies.
- 4.18 Investment Managers may not engage in the purchase or sale of derivatives, options or futures except to replicate a market index for a portion of the Investment Manager's portfolio not exceeding 5% of the total, for a period of time not exceeding 90 days.

COMMUNICATIONS REQUIREMENTS

COMMUNICATION BY THE INVESTMENT MANAGERS

- 5.1 Each Investment Manager will prepare and deliver a report on the management of its portfolio as soon as practicable at the end of each calendar quarter. Such report shall contain a list of the securities held in the portfolio of the end of the quarter, a list of all of the transactions conducted by the Investment Manager since the previous report, a summary the cash flows to and from the portfolio in the quarter, the rate of return earned by the portfolio in the quarter, the performance target, the rate of return relative to the performance target, and an overview of its current economic outlook and investment strategy.
- 5.2 Investment Managers will meet with the Committee or with the Fund's staff at least once a year to review the results the Investment Manager has achieved and the report described in paragraph 5.1, and to discuss its economic outlook and investment strategy.
- 5.3 Investment Managers shall inform the CFO of the Fund promptly of any changes in the Investment Manager's firm, including any changes in ownership, senior investment personnel or investment management style.



COMMUNICATION BY THE INVESTMENT COMMITTEE

- 5.4 The Chair will meet at least quarterly with the Board to report on the investment management of the Fund. The Chair's report will include a review of the investment performance of the Fund and any recommendations to amend the Policy.

MONITORING AND REVIEW

REVIEW OF THE POLICY

- 6.1 The Committee shall review the Policy and Guidelines at least once every year, and recommend to the Board any changes the Committee feels are necessary.
- 6.2 The Committee shall review the Policy as soon as practicable when any legislative changes may affect the investment of the Fund, and recommend to the Board any revisions they feel are necessary.

MONITORING AND REVIEW OF INVESTMENT PERFORMANCE

- 6.3 Each calendar quarter, the Committee shall review the evaluation conducted of the performance of the Investment Managers. The Committee shall review:
- (a) the investment returns of the Investment Managers, including each component of the Investment Managers' portfolios, over both the short term and the long term;
 - (b) the value added or lost by each Investment Manager relative to the performance target of the Investment Manager, as set out in Appendix A, and the sources and amounts of the value gained and lost;
 - (c) the level of risk taken by each Investment Manager in making its decisions, and the appropriateness of those decisions;
 - (d) the Investment Manager's adherence to the Policy and Guidelines;
 - (e) the Investment Manager's adherence to the investment approach and decision-making process for which the Investment Manager was hired;
 - (f) any changes in the Investment Manager's firm, including ownership, organizational structure and key investment personnel.
- 6.4 An Investment Manager's continued suitability may be examined at any time should the Investment Committee lose confidence in the Investment Manager's ability to succeed. Factors that might lead to a review include one or more of the following:
- (a) performance over the short term substantially below the performance target or inappropriate levels of risk;
 - (b) changes in the Investment Manager's investment approach and decision-making processes;
 - (c) fundamental changes within the Investment Manager's firm, including changes in ownership, personnel or a substantial growth or reduction in assets under management;
 - (d) evidence of malfeasance by the Investment Manager;
 - (e) failure to adhere to this Policy.



- 6.5 Concerns about the performance of an Investment Manager shall be noted in the minutes of the Committee's meeting, and shall include the conclusions of the Committee as to the next steps that will be taken in connection with the retention of such Investment Manager.

MISCELLANEOUS PROVISIONS

CONFLICT OF INTEREST

- 7.1 A conflict of interest exists when a person has the opportunity to advance or protect his or her own interest or the private interests of others with whom the person has a relationship, including a familial or other personal or business relationship, in a way detrimental to the interests, or potentially harmful to the integrity or fundamental mission of the Fund.
- 7.2 No member of the Board, the Committee or an Investment Manager, or a Fund employee or contractor may exercise their powers with regard to the investment of the Fund in their own personal or business interest or in the interest of their family or of a third person, nor may any such member place themselves in a position of conflict of interest or potential conflict of interest.
- 7.3 An individual, upon first becoming aware of a conflict of interest or a potential conflict of interest shall disclose in writing the nature and extent of an interest to the Chair immediately. The Chair shall report such disclosure to the Committee.
- 7.4 If the party disclosing the conflict of interest has the capacity to participate in or to make decisions affecting the investments of the Fund, the party may continue to participate only with the approval of the Committee.
- 7.5 The failure of a person to comply with the procedures described in this Section shall not of itself invalidate any decision, contract or other matter.

DELEGATION OF VOTING RIGHTS

- 7.6 Investment Managers are delegated the responsibility of directing the Custodian in the exercise of voting rights acquired through the Fund's investments in the portion of the Fund managed by them.
- 7.7 Investment Managers will exercise acquired voting rights with the intent of fulfilling the Fund's investment objectives and policies.
- 7.8 Investment Managers will maintain a record of how voting rights are exercised on behalf of the Fund.



APPENDIX A - INVESTMENT MANAGER MANDATES

ACM Commercial Mortgage Fund

- A.1 ACM has been retained to manage a portion of the fixed income portion of the fund in their commercial mortgage fund.
- A.2 ACM's performance objective is to exceed the return of the FTSE TMX Canada Short Term Bond Index + 1.4% over rolling four-year periods, after investment management fees.

Leith Wheeler

- A.3 Leith Wheeler has been retained to manage a portion of the fixed income portion of the Fund. They may hold up to 20% of their portion of the Fund in short-term investments, cash or cash equivalents.
- A.4 Leith Wheeler's target yield at any time is 0.10% per year, after the deduction of investment management expenses, in excess of the January 1st yield on a portfolio of Government of Canada benchmark bonds with the same maturity schedule as the bond ladder. The benchmark portfolio will be adjusted at the beginning of each calendar year, or more frequently if necessary, to reflect any changes in the maturity schedule of the bond ladder.
- A.5 The bond ladder should extend to the end of 2023 with the exception of debt issued by the First Nations Finance Authority. At any given time, the bond maturities in each complete year (excluding the current calendar year) should be within 15% of the amount that would be paid in the year if equal amounts are to be paid each year.