Investment Policy Statement

for

Ima M. R. Widow

Prepared by

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Summary of Current Status

Ima M. R. Widow is a widow of age 63 living in Charlottetown, P.E.I. Ima has left the work force for health reasons and has no plans to return. She receives an indexed pension of about $710 per month, the survivor benefit of her late husband's pension. She also receives a CPP survivor pension of $550 per month and will collect maximum OAS – about $470 per month – in 19 months when she turns 65.

Ima requires an after-tax income of $2,600 per month, indexed for inflation. Ima expects about 90% of her expenses to be in Canadian dollars, with some modest foreign currency requirements if she travels. With her pensions, her pre-tax income requirement from her portfolio is about $2,100 per month but will fall to $1,630 per month when OAS begins. Given the favourable tax treatment of Canadian dividends and capital gains, portfolio income from those sources would reduce pre-tax income requirements to about $1,600 per month now and $1,150 per month after OAS begins.

Ima has no legal dependents. She has three adult children, all self-supporting, and one grandchild. Ima would like to preserve as much capital from her portfolio as possible for the benefit of her children and grandchildren.

Ima owns a house in Charlottetown, worth approximately $175,000 and completely paid for. It is her principal residence and she hopes to remain in the house until her death.

Ima has liquid assets of about $175,000, RRSPs worth approximately $140,000, and a taxable investment account worth about $240,000. $25,000 of the liquid assets form an emergency / contingency fund and will be treated separately in this policy.

Ima has no unused RRSP contribution room nor any capital loss carryforwards. Her taxable portfolio has an adjusted cost base approximating its current value. Her marginal tax rate on interest income is 26%, 13% on capital gains, and 6% on Canadian dividends.

Objectives and constraints

Ima's primary objective for the portfolio is to fund a comfortable retirement, with a secondary objective of passing as large an estate as possible to her heirs. To that end, she would prefer to maximize investment returns, but there is a requirement to provide an income of about $20,000 annually from the portfolio beginning now. These objectives are to be achieved subject to the following constraints.

- Risk tolerance – The portfolio should be structured so that annual losses of more than 10% are expected to occur less than one year out of ten.
- Time horizon – The capital of the portfolio can be invested for a long period of time. Income will need to be withdrawn on a regular basis.
- Liquidity – $25,000 in emergency funds are segregated. An additional $10,000 is segregated to provide a $500/month bridge until OAS begins.
- Taxation – As much of the investment portfolio is in taxable accounts, preference is given to generating income via dividends or capital gains. In the registered accounts, CRA rules regarding eligible investments and foreign content must be observed.
- Regulatory / legal – None.
- Unique circumstances – None.
- Time to be spent – Minimal.

Investment Strategy Guidelines

Emergency reserves and a fund to draw upon until OAS begins are required. $35,000 in cash should be segregated and invested it in as risk free a way as possible. Appropriate vehicles are Canada savings bonds, treasury bills, and high interest savings accounts or redeemable GICs at banks or credit unions. This fund can be drawn upon as necessary.

The remainder of this policy deals only with the balance of the portfolio after the above liquidity requirements are met.

Ima has an average tolerance for market risk and requires a regular income from the portfolio. Consequently, a conservative to balanced asset mix is appropriate. The recommended strategic target is:

Cash and equivalents	0%
Canadian indexed bonds	20%
Canadian nominal bonds or preferred shares	30%
Canadian equities	25%
U.S. equities	10%
EAFE equities	10%
Emerging market equities or precious metals	5%

The expected total return from this asset mix is 6-6.5% per year, of which 3-3.5% will be regular interest or dividend income.

As the portfolio will be invested in low cost index equivalent securities by asset class, no benchmark is provided.

Security Selection Guidelines

Ima has neither the time nor interest to choose individual securities and keep a properly diversified portfolio. Consequently, the investment vehicles are to be chosen to provide exposure to the target classes in a well diversified way and at minimal expense. Low cost passive funds, including index funds and exchange traded funds, are to be used wherever possible.

If individual securities are used in the portfolio, the following guidelines must be followed.

- To keep the portfolio's risk within acceptable bounds, nominal bonds should have maturities of no more than 7 years on average and should carry a minimum rating of A. Preferred shares rated P2 or better are permitted up to 20% of the overall portfolio. Lower rated and unrated bonds and preferred shares are forbidden.
- Individual securities other than instruments issued or guaranteed by Canada or a province are limited to 3% of the total portfolio.

The following types of investments are not allowed:

- Private equity
- Venture capital
- Hedge funds
- Real estate
- Structured products
- Futures and options
- Mutual funds with MERs exceeding 1% per year

Leverage is forbidden.

Investments denominated in foreign currencies should not be hedged.

Location Guidelines

To avoid unnecessary taxation, allocations to the bond asset classes are to be located wherever possible in registered accounts. At writing, the relative sizes of Ima's accounts argue in favour of locating all the indexed bonds and some nominal bonds in the RRSP. The remainder of the fixed income – bonds and/or preferred shares – and the equity asset classes should be in the taxable account.

Risk Control, Monitoring and Review

Overall risk management is the rationale behind the investment strategy and security selection guidelines. No additional risk management controls, aside from an adherence to the guidelines contained in this document, are in place.

Once per year, the portfolio should be reviewed and, if necessary, adjusted to bring the actual allocations back to the strategic target mix. To minimize transaction costs and taxes, small deviations from the target mix (less than 2%) should be ignored.

This document should be reviewed at least once a year. Changes to personal circumstances that alter risk tolerance or time horizon should be incorporated in any revision. Market price movements, other than for the purpose of rebalancing per the previous paragraph, are not grounds for revision.