

Statement of Investment Policies and Procedures

For

Asia Pacific Foundation of Canada

Endowment Fund

Adopted: 21 December, 2005

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1. GENERAL

1.1 Application

- (a) This statement of investment policies and procedures (“the Statement”) applies to the assets held in trust with respect to the Endowment Fund of the Asia Pacific Foundation of Canada (“the Fund”). It contains investment objectives, guidelines and monitoring procedures.
- (b) Any investment manager (“the Manager”) or any other agent or advisor providing services in connection with the Fund shall accept and adhere to this Statement.

1.2 Compliance

- (a) The Fund will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which might be construed from this Statement.
- (b) All investment activities will be made in accordance with the Code of Ethics and Standards of Practice of the Association of the CFA Institute.

1.3 Pooled Funds

With the approval of the Committee, the Manager may hold any part of the portfolio in one or more pooled or co-mingled funds managed by the Manager, provided that such pooled funds are expected to be operated within constraints reasonably similar to those described in this mandate. It is recognized by the Committee that complete adherence to this Statement may not be entirely possible; however, the Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any significant departure from this Statement.

1.4 Effective Date

This Statement supersedes any previous investment policy statement. This Statement is effective 21 December 2005. It was renewed and reaffirmed at the Board of Director meeting on 20 June 2007.

2. RESPONSIBILITIES

2.1 Authority

The Fund was furnished through a conditional grant provided the Government of Canada. The Foundation shall use this conditional grant solely for the purposes of the Fund. No material changes in the objectives of the Fund, the use of the Fund or the Fund's investment policy will be undertaken without prior written approval of the Minister of Foreign Affairs.

2.2 Fund Administration

Responsibility for the Fund rests with the Board of Directors ("the Board") of the Asia Pacific Foundation of Canada. The Board has the sole power to amend or terminate the Fund.

2.3 Delegation

The Board may delegate some of its responsibilities with respect to the investment of the Fund to agents and advisors.

2.4 Investment Committee – Composition

An Investment Committee ("the Committee") is to be appointed by the Board. The Committee should be composed of at least three Directors who are not officers or employees of the Foundation. Members of the Committee shall be financially literate and, collectively, have broad knowledge or experience in investment matters.

2.5 Investment Committee – Responsibilities

The Committee is responsible for:

- Formulating and amending when necessary this Statement;
- Reviewing this Statement at least once per year;
- Notifying the Board of any significant financial risks, including the consequences of potential significant losses of investments of any or all of the Fund;
- Selecting the Manager and any other agents or advisors that may be necessary to prudently manage the Fund;
- Monitoring the Manager and any other agents or advisors; and
- Informing the Manager of any significant cash flows.

2.6 Investment Manager

The Manager is responsible for:

- Selecting securities within the asset classes assigned to them, subject to applicable legislation and the constraints set out in this Statement;
- Providing the Committee with quarterly reports of actual portfolio holdings and a review of investment performance and future strategy;
- Attending meetings of the Committee at least twice per year to review performance and to discuss proposed investment strategies;
- Informing the Committee promptly of any investments which fall outside the investment constraints contained in this Statement and what actions will be taken to remedy this situation; and
- Advising the Committee of any elements of this Statement that could prevent attainment of the Fund's objectives.

2.7 Standard of Care

In exercising their responsibilities, the Committee, Manager and any other agent or advisor shall adhere to the following guidelines:

- (a) in the discharge of their duties and the exercise of their powers, whether the duty or power is created by law or a trust instrument, they shall exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.
- (b) Without limiting the generality of (a), persons who possess, or because of their profession, business or calling, ought to possess, a particular level of knowledge or skill relevant to their responsibilities to the Fund, shall apply that particular knowledge or skill set to the administration of the Fund.

3. FUND OVERVIEW

The Fund was established primarily through a grant from the Government of Canada. Its purpose is to provide a stable source of funding for the effective operation of the Asia Pacific Foundation of Canada.

4. FUND OBJECTIVES

4.1 Investment Philosophy

The overall investment philosophy of the Fund is to maximize the long-term real rate of return subject to an acceptable degree of risk.

4.2 Investment Objectives

- (a) The primary objective of the Fund is to preserve the principal amount of the Fund over the long term.
- (b) A secondary objective is to preserve the real value of the Fund over the long term.
- (c) The long-term expected rate of return for the Fund is 3% above inflation (as recorded by the Consumer Price Index) over four-year rolling periods.

4.3 Rate of Return Calculations

Market value calculations are to be used unless otherwise indicated and all calculations are to be made on a time-weighted basis.

5. ASSET ALLOCATION

5.1 Target Asset Allocation and Ranges

Asset Class	Minimum*	Target*	Maximum*
Canadian equities	5%	25%	50
Foreign equities**	5%	20%	30%
<i>Total equities</i>	<i>10%</i>	<i>45%</i>	<i>60%</i>
Alternative Investments***	0%	0%	10%
Mortgages	0%	5%	10%
Bonds	20%	45%	100%
Cash & short-term	2%	5%	20%

* Percentage of portfolio at market value.

** The Fund's holding of foreign property as a percentage of the investment's portfolio's total assets shall not exceed the limits applicable for pension funds as described under subsection 206(2) of the Income Tax Act (also known as the "Foreign Property Rule").

*** Investments in alternative assets (including hedge funds, fund of hedge funds, venture capital, private equity, real estate and non-traditional asset classes) shall be limited to no more than 10% of the investment portfolio's assets.

5.2 Basis of Asset Allocation

The asset allocation has been determined in order to meet the Fund objectives. It reflects a risk/return trade-off which was assessed by the Committee. It is based on the following assumptions regarding long-term expected returns:

Equities:	8.0%
Bonds (Universe)	4.1%
Mortgages	5.0%
Short-term securities	2.5%

On receipt of the grant from the Government of Canada, the Fund is expected to have a market value of approximately \$55 million. The expected return of the portfolio is 5.8%. If we assume inflation of 2% (the Bank of Canada's long-term official target), and that this amount is contributed back to the Fund each year to preserve the real value of the Fund, then 3.8% would be available to distribute on an annual basis. Based the expected fund size of \$55 million, this would be equal to about \$2.1 million per year. ***Please note that these return estimates are***

based on expected long-term trends and that the actual return on the Fund in any given year could be significantly different.

5.3 Investment Philosophy

The Committee believes that the investment objectives can best be met through active investment management. Where appropriate, pooled funds are preferred as they reduce administrative costs and provide better diversification.

5.4 Liquidity

Liquidity will be maintained by requiring at least 2% of the Fund to be invested in cash and short-term securities. In addition, the Fund will favour investments in pooled funds, which in most circumstances provide a high degree of liquidity.

6. PERMITTED INVESTMENTS

6.1 List of Permitted Investments

- (a) Canadian equities:
 - Common and preferred stocks
 - Income trusts; and
 - Rights and warrants.

- (b) Foreign equities:
 - Common and preferred stocks;
 - Rights and warrants; and
 - American Depository Receipts and Global Depository Receipts.

- (c) Short-term instruments:
 - Cash;
 - Demand or term deposits;
 - Short-term notes;
 - Treasury bills;
 - Bankers acceptances;
 - Commercial paper; and
 - Investment certificates issues by banks, insurance companies and trust companies.

- (d) Fixed income instruments:
 - Bonds;
 - Debentures (convertible and non-convertible); and
 - Mortgages and other asset-backed securities.

- (e) Pooled funds, closed-end investments companies and other structured vehicles in any or all of the above permitted investment categories are allowed.

6.2 Derivatives

Investment in derivative instruments may be used for hedging purposes to facilitate the management of risk. Under no circumstances will derivatives be used for speculative purposes or to create leveraging of the portfolio.

6.3 Prohibited Transactions

The Fund will not engage in the following:

- Purchase of securities on margin;
- Loans to individuals other than to arm's length parties guaranteed by a mortgage;
- Short sales;
- Investments in real estate, venture capital, resource properties, non-marketable securities and commodity funds;
- Derivatives or any instruments that have derivative holdings other than for risk mitigation purposes;
- Borrowing money, issue any debt obligation or give and guarantees to secure a debt obligation or other obligation of another entity; and
- Engage or invest in the repurchase agreements against securities that are not permitted to be held in the portfolio.

6.4 Securities Lending

Securities lending is permitted through the Custodian of the Fund, subject to applicable legislation and provided that a minimum liquid, high quality collateral coverage of at least 102% of the current market value of the loaned securities is maintained at all times. Securities lending (if any) will be at all times be in compliance with National Instrument 81-102.

7. INVESTMENT RESTRICTIONS

7.1 Canadian Equities

- (a) No more than 10% of the market value of the Fund may be invested in the equity securities of any one company or two affiliated companies.
- (b) There will be a minimum of 30 stocks in the Canadian equity portfolio.
- (c) The largest 8 stocks may not account for more than 50% of the market value of the assets of the Canadian equity portfolio.
- (d) No more than 10% of the market value of the Canadian equity portfolio may be invested in companies with a market capitalization of less than \$100 million at the time of purchase.
- (e) Investments in equities of any one Canadian issuer shall be limited to no more than 10% of the outstanding stock (or of any single class thereof) of the issuer.

7.2 Foreign Equities

- (a) No more than 10% of the market value of the assets of the Fund may be invested in the equity securities of any one company or two affiliated companies.
- (b) There will be a minimum of 50 stocks in the foreign equity portfolio.
- (c) The largest 10 stocks may not account for more than 50% of the market value of the assets of the foreign equity portfolio.
- (d) No more than 10% of the market value of the foreign equity portfolio may be invested in companies with a market capitalization of less than \$500 million (U.S.) at the time of purchase.
- (e) Investments in equities of any one foreign issuer shall be limited to no more than 10% of the outstanding stock (or of any single class thereof) of the issuer.

7.3 Fixed Income

- (a) Maximum holdings of the fixed income portfolio by credit rating are:
 - 100% AAA ratings;
 - 75% for A and AA ratings; and
 - 20% for BBB ratings.

- (b) Maximum holdings of the fixed income portfolio by issuer:
- 100% for Government of Canada;
 - 75% for Provincial bonds A-rated or higher;
 - 25% for Provincial bonds below A-rated;
 - 50% for Corporate bonds A-rated or higher;
 - 15% for Corporate bonds below A-rated;
 - 20% for asset-backed securities;
 - 20% for mortgages or mortgage funds;
 - 20% for bonds denominated for payment in non-Canadian currency; and
 - 10% for real return bonds.
- (c) All debt ratings refer to the ratings of Dominion Bond Rating Service (DBRS), Standard & Poors', Fitch or Moody's. If a rating change causes a maximum to be exceeded or non-compliance, the Manager shall sell the security as soon as is practical to the extent required for compliance or obtain approval to continue to hold the security from the Committee.
- (d) Canadian federal government (or federal government guaranteed agencies) shall make up at minimum 25% of the market value of the fixed income portfolio.
- (e) No more than 5% of the market value of the fixed income portfolio may be invested in a single security not issued by the Government of Canada or a Provincial government with an A-rating or higher at time of purchase.
- (f) No more than 1% of the market value of the fixed income portfolio may be invested in a security of a single issuer with a rating of BBB at time of purchase.
- (g) Private placements are permitted under the following terms:
- The Manager may invest in liquid private placements which meet the same criteria (including liquidity and credit quality) which would be applied to purchasing public issues.
 - The Manager may invest a maximum of 10% of the market value of the fixed income portfolio in illiquid private placements provided they meet the same credit quality standards imposed on other corporate bond investments.
 - No more than 2% of the market value of the fixed income portfolio may be invested in an illiquid private placement of a single issuer.
- (h) The minimum rating for short-term securities is R1 (low).

- (i) The Fund shall be permitted to maintain an operating line of credit to ensure that it has the appropriate cash flow for its ongoing operations, provided that the line of credit is maintained with a Schedule A charter bank according to the standard terms and conditions, and provided that the operating line of credit outstanding at any time does not exceed 1% of the book value of the Fund's assets.

7.4 Limits on Maximum Holdings and Exclusions

Investments in the securities of any one issuer, or two or more affiliated entities, shall be limited to no more than 10% of the investment portfolio's assets except:

- (a) investments in securities issued by the Government of Canada or the government of a province, or securities that carry the full faith and credit of either; and
- (b) any index, segregated, mutual or pooled fund.

8. OTHER MATTERS

8.1 Valuation of Investments

- (a) Investments in publicly traded securities shall be valued no less frequently than monthly at their market value.
- (b) Investments in pooled funds comprising of publicly traded securities shall be valued according to the unit values published at least monthly by the Manager.
- (c) If a market valuation of the investment is not readily available, then a fair value shall be determined by the Manager. For each such non-traded investment, an estimate of fair value shall be provided by the Manager not less frequently than quarterly. In all cases, the methodology should be applied consistently over time.
- (d) The Committee shall be provided with a qualified independent appraiser's evaluation of all such non-traded investments not less frequently than every three years, or annually where the investment represents more than 2% of the Fund.

8.2 Conflict of Interest

- (a) A conflict of interest is deemed to exist when a fiduciary of the Fund has an interest of sufficient substance and proximity to his/her duties and powers with respect to the Fund to impair his/her ability to render unbiased advice or to make unbiased decisions affecting the Fund.
- (b) A fiduciary of the Fund must disclose any actual or perceived conflict of interest in accordance with procedures established by the Committee, or as soon as possible along with all relevant details to the Chair of the Committee who, in turn, discloses it to all Committee members at an appropriate time.

8.3 Proxy Voting Rights

- (a) Proxy voting rights on Fund securities are delegated to the Manager. However, in the case of segregated holdings, the Committee reserves the right to exercise voting rights on Fund securities when it deems appropriate.
- (b) The Manager maintains a record of how voting rights of securities in the Fund were exercised.
- (c) The Manager will exercise acquired voting rights in the best interests of the Fund. In case of doubt as to the best interests of the Fund, the Manager will request instructions from the Committee and will act in accordance with such instructions.

8.4 Policy on Socially Responsible Investing

The Committee believes that companies who interact responsibly with their employees, customers and the communities in which they operate will deliver superior financial performance over the long term. The Manager should consider a company's social and environmental performance when making an investment, although not to the exclusion of other investment considerations.

9. MONITORING

9.1 Investment Reports

Each quarter, the Manager will provide an investment report containing the following information:

- Portfolio holdings at the end of the quarter;
- Portfolio transactions during the quarter;
- Rates of return for the portfolio with comparisons to relevant indexes or benchmarks;
- Commentary on investment returns;
- Market outlook and strategy; and
- Commentary on any material changes with the Manager.

9.2 Compliance Reports

Each quarter, the Manager will provide a report confirming compliance with the requirements set out in this Statement.

9.3 Committee Meetings

At the discretion of the Committee, but at least once per year, the Manager will meet with the Committee. At these meetings, the Manager will:

- Review and update on the investment policy and strategy;
- Review the rate of return achieved by the Fund;
- Review capital market performance and expectations of future returns;
- Provide any information concerning new developments affecting the firm and its services; and
- Comment on the continued appropriateness of the Statement.

10. STATEMENT REVIEW

10.1 Annual Review

This Statement will be reviewed each year by the Board.

10.2 Material Changes

Material changes in the following areas may require a need for revision to this Statement:

- Long-term risk/return tradeoffs in capital markets;
- Financial situation of the Foundation;
- Risk tolerance of Committee members;
- Legislation or regulation; and
- Shortcomings of the Statement that emerge in its practical application or significant modifications that are recommended to the Committee by the Fund's advisors.

APPENDIX A – INVESTMENT COMMITTEE MEMBERS

As of June 20, 2007, the following members of the Board of Directors made up the Investment Committee:

- Diana Liu, Chair
- Kenneth Courtis
- Robert Pace
- Carol Lee

APPENDIX B – INVESTMENT MANAGER

The Investment Committee of the Asia Pacific Foundation of Canada selected *Phillips, Hager & North Investment Management Ltd.* to manage the Foundation's investment portfolio. The key contact at PH&N is:

Brent A. Sutton, CFA
Vice President
Phillips, Hager & North Investment Management Ltd.
200 Burrard Street, 21st Floor
Vancouver, BC V6C 3N5

Telephone: (604) 408-6034
E-mail: bsutton@phn.com