

**Pipeline Reclamation Trust ("PRT") for  
Trans Mountain Pipeline L.P.**

**Statement of Investment Policy and Procedures**

**Date: January 1, 2015**

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## 1. CAPITALIZED TERMS

Unless otherwise defined, capitalized terms used herein shall have the meanings assigned to them in section 4 below.

## 2. BACKGROUND

### 2.1 National Energy Board Rulings

- 2.1.1 In May 2009, the National Energy Board (the "**NEB**") issued the RH-002-2008 Reasons for Decision which set out guiding principles and a list of key attributes in determining the appropriate method for NEB regulated pipelines to set-aside and collect funds for pipeline abandonment.
- 2.1.2 In May 2014, the NEB issued the MH-001-2013 Reasons for Decision which confirmed that a trust would be a suitable mechanism to set aside funds for pipeline abandonment. The NEB also noted its support for the use of a specific form of trust, being a "qualifying environmental trust", as defined in the *Income Tax Act* (Canada) (the "**Tax Act**").
- 2.1.3 MH-001-2013 also provided detailed directions with respect to the responsibilities of the pipeline company and the relationship between the pipeline company, the trustee and the investment manager as follows:
- (a) Each individual pipeline company is solely responsible for determining the appropriate investment policy with consideration of the risk tolerance of landowners and shippers.
  - (b) For pipeline companies adopting a trust arrangement, all investments must be made in accordance with sections 204 and 211.6 of the Tax Act, as amended.
  - (c) When pipeline companies determine their investment strategy, two important criteria should be taken into account:
    - (i) capital preservation; and
    - (ii) appropriate level of a portfolio's standard deviation that fits the company's circumstances.
  - (d) Pipeline companies must develop an abandonment funding plan which includes consideration of asset-liability management, cash flow matching or immunization

strategies such that, to the extent practicable, investment decisions take into account the timing of cash requirements for abandonment, particularly during the later stages of accumulation.

- (e) The trustee is responsible for directing the investment of funds in accordance with the investment strategy provided by the pipeline company.

## **2.2 Establishment of the Pipeline Reclamation Trust**

Trans Mountain Pipeline ULC as general partner of Trans Mountain Pipeline L.P. ("**Trans Mountain**"), will commence on January 1, 2015, the collection and set-aside of funds for abandonment of the Trans Mountain Pipeline ("**Pipeline**"). Pursuant to the execution of the Trans Mountain Pipeline Reclamation Trust Agreement (the "**PRT Agreement**"), Trans Mountain has established a qualifying environmental trust in accordance with sections 204 and 211.6(1) of the Tax Act to set-aside funds collected for pipeline abandonment (the "**PRT**") and is the "PRT Sponsor".

## **3. PURPOSE**

### **3.1 Purpose of Statement of Investment Policies and Procedures**

This Statement of Investment Policies and Procedures ("**Statement**") has been prepared to:

- 3.1.1 comply with the definition of this Statement provided in section 1.1 of the PRT Agreement, and the role stipulated for this Statement in section 10.1 of the PRT Agreement;
- 3.1.2 define the roles various parties will play, and the procedures they will follow in the ongoing investment of the Fund;
- 3.1.3 provide guidelines for the prudent and effective investment of the Fund;
- 3.1.4 provide guidelines for monitoring and reporting the performance of the Fund;
- 3.1.5 provide procedures for communication between the PRT Sponsor, the Trustee, the Investment Manager, the Custodian and the Consultant; and
- 3.1.6 facilitate compliance with the laws, rules and regulations applicable to the investment of the Fund.

### 3.2 Statement

This Statement replaces previous Statements in respect of the PRT.

## 4. DEFINITIONS

In this Statement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the meanings ascribed to them below:

- Applicable Laws:** shall mean all existing or future Canadian federal, provincial, territorial or non-Canadian laws, statutes, and regulations applicable to the Trustee or the PRT and all orders or binding directives made under statutory authority by any governmental or regulatory body having jurisdiction over the PRT.
- Benchmark:** shall mean a standard against which the performance of an investment manager can be measured. Generally, broad market stock and bond indexes are used for this purpose.
- Business Day:** shall mean any day on which the Toronto Stock Exchange is open for business.
- Committee:** shall have the meaning ascribed thereto in section 5.1.
- Consultant:** shall mean the consultant or consultants, described in section 5.5, and hired in accordance with section 5.2.7.
- Custodian:** shall mean the Trustee or any subcustodian appointed by the Trustee pursuant to the terms of the PRT Agreement.
- Diversification:** means a risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the Securities in the portfolio are not perfectly correlated.
- Fiscal Year:** shall mean with respect to the Fund, a calendar year.
- Fund:** shall mean the property held by the Trustee pursuant to the PRT Agreement as shall exist from time to time together with any earnings, profits, increments and accruals arising therefrom, including all amounts delivered to and accepted by the Trustee from any prior trustee or contributor to the PRT, less any amounts

	properly paid or distributed in accordance with the terms of the PRT Agreement or otherwise.
<b>Investment Management Mandate:</b>	shall have the meaning ascribed thereto in section 7.2.
<b>Investment Manager:</b>	shall mean the investment manager, or managers, described in section 5.3, and hired in accordance with section 5.2.2.
<b>Liquidity:</b>	shall mean the ease with which an asset can be converted to cash.
<b>Market Value:</b>	shall mean the price at which a security is trading in the open market.
<b>NEB:</b>	shall mean the National Energy Board, established pursuant to the <i>National Energy Board Act</i> (Canada), as amended from time to time, or any successor to the National Energy Board.
<b>Permitted Investments:</b>	shall have the meaning ascribed thereto in section 8.1.
<b>Pipeline:</b>	shall have the meaning ascribed thereto in section 2.2, as further described in Appendix A of the PRT Agreement.
<b>PRT:</b>	shall have the meaning ascribed thereto in section 2.2.
<b>PRT Agreement:</b>	shall have the meaning ascribed thereto in section 2.2.
<b>PRT Sponsor:</b>	shall mean Trans Mountain.
<b>Rate of Return:</b>	shall mean the gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security, plus realized and unrealized capital gains.
<b>Securities:</b>	shall mean a contract or contracts that can be assigned a value and traded.
<b>Statement:</b>	shall mean this Statement of Investment Policy and Procedures, including any and all amendments.
<b>Tax Act:</b>	shall mean the <i>Income Tax Act</i> , RSC 1985, c 1 (5th Supp), as amended from time to time.
<b>Trustee:</b>	shall mean the licensed trust company appointed as trustee of the PRT pursuant to the terms of the PRT Agreement.

## 5. **ROLES AND RESPONSIBILITIES**

### 5.1 **PRT Sponsor**

The PRT Sponsor established a Joint Pipeline Abandonment Committee ("**Committee**") to undertake the activities and decision making on behalf of the PRT Sponsor. The Committee will:

- 5.1.1 be responsible for oversight of the PRT;
- 5.1.2 develop and recommend this Statement, including long-term asset allocation and return objectives with review and update at least annually;
- 5.1.3 consult with the Trustee regarding the hiring of one or more Investment Managers to undertake the investment management function;
- 5.1.4 communicate this Statement and any amendments thereto to the Trustee;
- 5.1.5 annually review the Investment Manager performance, compliance with this Statement, and continued suitability as an Investment Manager for the PRT. The Committee may invite the Investment Manager to attend an annual review meeting;
- 5.1.6 ensure prudent management of the Fund by providing oversight on:
  - (a) the objectives of the PRT, and
  - (b) the laws and regulations affecting operation of the PRT;
- 5.1.7 pursuant to page 49 of MH-001-2013, report and confirm to the NEB at least annually that:
  - (a) investments have been made in accordance with the quantitative limits of this Statement;
  - (b) investments have been made in accordance with the risk and return objectives and constraints of this Statement; and
  - (c) investments have been made within the definition of allowable investments as defined in the "qualifying environmental trust" provisions of the Tax Act, as further described in section 8 hereof;
- 5.1.8 consult with the Trustee regarding the termination of an Investment Manager as described in section 5.2.6;
- 5.1.9 promptly notify the Trustee of any investment that is a "prohibited

investment", as defined in section 211.6 of the Tax Act, to the extent that such investment would otherwise be:

- (a) a Permitted Investment, as defined in section 8.1.2; and
- (b) a potential investment under the Investment Management Mandate, as described in section 7.2;

5.1.10 delegate to sub-committees and/or an administrator such matters deemed appropriate; and

5.1.11 file changes to this Statement with the NEB, except for immaterial changes as defined in section 11.2 of this Statement.

## **5.2 Trustee**

The Trustee will:

5.2.1 ensure that the terms of this Statement that impose obligations on any of:

- (a) the Custodian;
- (b) the Consultant;
- (c) the Investment Manager; and
- (d) any other external counsel, auditors, advisors, agents or other persons as the Trustee may deem necessary from time to time;

are incorporated by reference or otherwise into any material agreement entered into by the Trustee with any such party;

5.2.2 in consultation with the Committee, hire the Investment Managers to undertake the investment management function;

5.2.3 provide this Statement and any amendments thereto to the Investment Manager;

5.2.4 provide direction to the Investment Manager regarding the investment of funds held in the PRT pursuant to the provisions of this Statement;

5.2.5 monitor asset allocations of the Investment Manager and asset classes to ensure assets are in overall compliance with this Statement;

5.2.6 in consultation with the Committee, terminate the Investment Manager. Reasons for considering the termination of the services of the Investment

Manager include, but are not limited to, the following factors:

- (a) performance results, which over a reasonable period of time, are below the objectives established for the Investment Manager's mandate;
- (b) changes in the overall structure of the PRT such that the Investment Manager's services are no longer required;
- (c) changes in the Investment Manager's personnel, firm structure, and investment philosophy, style or approach that might adversely affect the potential return and/or risk level of the portfolio;
- (d) legal or regulatory proceedings against the Investment Manager, investment personnel or any sub-advisor firm;
- (e) changes to the assessments/ratings by third party advisors indicating expectations of future performance; and
- (f) the Investment Manager's failure to adhere to this Statement;

5.2.7 in consultation with the Committee, hire a Consultant to prepare/review this Statement to provide guidance as to whether the investment strategy provided herein will meet the investment objective; and

5.2.8 ensure the Fund is invested prudently in accordance with this Statement and applicable laws, rules and regulations.

### **5.3 Investment Manager**

The Investment Manager will, with respect to the Fund:

5.3.1 select Securities within each asset class, subject to applicable legislation and the constraints set out in this Statement, in accordance with its mandate;

5.3.2 calculate monthly rates of return of its portion of the PRT and of each of the components and classes;

5.3.3 provide the Trustee and the Committee with quarterly reports of portfolio holdings, including any changes in the portfolio since the last review, any expected future changes in the portfolio, and any statistical information required in connection with such reports;

5.3.4 provide the Trustee and Committee with an annual review of results achieved, forecast of future economic conditions over the next 12 - 24 months, estimates

for future returns on each asset class and proposed investment strategies that may be used to meet the objectives of this Statement. On invitation, this annual review may be provided at a Committee meeting;

- 5.3.5 inform the Committee promptly of any element of this Statement that could prevent attainment of the PRT's objectives;
- 5.3.6 only invest in investments that are "Permitted Investments" as outlined in section 8.1, and for greater certainty, will not invest in any other investments;
- 5.3.7 give prompt notice to the Custodian of all purchases and sales of Securities;
- 5.3.8 within fifteen (15) Business Days following the close of each quarter, provide the Trustee and the Committee with a certificate of compliance with this Statement;
- 5.3.9 within fifteen (15) Business Days following the last day of each month, provide the Trustee and the Committee with a statement of account or report showing all property transferred to the Investment Manager during the immediately preceding month;
- 5.3.10 within fifteen (15) Business Days following the close of:
  - (a) each quarterly period;
  - (b) each Fiscal Year; and
  - (c) any part of a quarterly period in which:
    - (i) the Investment Manager has resigned, or been removed or terminated; or
    - (ii) the Trustee has resigned, or been removed or terminated in accordance with the PRT Agreement;

provide the Trustee and the Committee with a statement of account or report showing all relevant information concerning the property held by the Investment Manager including, without limitation, information detailing all investments made, reinvestment undertaken, investment income earned, and disbursement of funds for each quarterly period or part thereof, or Fiscal Year, as applicable;

- 5.3.11 provide the Trustee and the Committee with any other report or information as may otherwise require disclosure by Applicable Laws or that is reasonably requested by the NEB, the Trustee, or the Committee, whether by way of written communication or meeting, in accordance with the reasonable request of the NEB, the Trustee or the Committee; and

- 5.3.12 all reports provided by the Investment Manager shall distinguish between investment returns realized on income and capital account.

#### **5.4 Custodian**

The Custodian will:

- 5.4.1 fulfil the regular duties of a Custodian as required by law;
- 5.4.2 provide the Trustee with accurate and complete accounting of the PRT, including monthly reports of all assets of the PRT and transactions during the month; and
- 5.4.3 process the security transactions that result from the buy and sell orders placed by the Investment Manager, provided that the transactions comply with all applicable legislation.

#### **5.5 Consultant**

The Consultant will:

- 5.5.1 participate with the Committee in the preparation and/or subsequent reviews of this Statement;
- 5.5.2 provide the necessary information to the Committee for the review of this Statement, which may include a written report comparing the target Rate of Return of the Investment Manager with the actual Rate of Return;
- 5.5.3 attend a meeting of the Committee and the Investment Manager at least annually to review the Investment Manager's expectations about future returns on asset classes and PRT investment strategies; and
- 5.5.4 provide support to the Committee in its qualitative and quantitative review and ongoing monitoring of the Investment Manager's performance.

#### **5.6 Authorized Financial Institutions and Broker/Dealers**

- 5.6.1 Financial institutions and broker/dealers handling the investments shall be required to be registered with the applicable Provincial Securities Commission and to maintain good standing membership with the Investment Industry Regulatory Organization of Canada.
- 5.6.2 The appointment of financial institutions and broker/dealers authorized to provide investment services to the PRT shall be reviewed at least every five years.

## 6. INVESTMENT OBJECTIVE AND BENCHMARK

### 6.1 Investment Objective

6.1.1 The primary investment objective is to ensure that funds collected by Trans Mountain for pipeline abandonment and contributed to the PRT are invested in a prudent and effective manner in order to meet the future abandonment obligations of the Pipeline.

6.1.2 The investment considerations for achieving this objective are:

- (a) Capital preservation: Investments shall be undertaken in a manner that seeks to preserve the real value of capital within the PRT. Trans Mountain is ultimately responsible for the full cost of abandoning its Pipeline and an inability to maintain capital would not relieve Trans Mountain of its abandonment obligations.
- (b) Capital accumulation: The preservation of capital along with the long time horizon over which contributions will be invested will allow for the accumulation of capital in the PRT in order to meet Trans Mountain's abandonment obligations.
- (c) Risk: In the early years of collection the tolerance for risk in the investment portfolio is low. Over time the risk tolerance may be reviewed and amended after taking into account investment experience, stakeholder considerations and expert advice.

### 6.2 Time Horizon

The investment time horizon for the Fund is 40 years commencing January 1, 2015.

### 6.3 Benchmark

6.3.1 The Investment Manager's performance will be monitored and evaluated by the Committee using appropriate Benchmarks as follows:

	<b>Benchmark Index</b>
Fixed Income	FTSE TMX Long Term Federal Bond Index
Cash	DEX 91-Day T-Bill Index

6.3.2 The Committee will compare the investment performance of the PRT against the investment performance of the Benchmark at least once each quarter.

## **7. INVESTMENT MANAGEMENT**

### **7.1 Investment Management Structure**

In the early stages of the PRT's existence, a single Investment Manager will be hired by the Trustee to invest the Fund in Fixed Income Securities in accordance with the Investment Management Mandate described in section 7.2.

### **7.2 Investment Management Mandate**

7.2.1 The following table constitutes the acceptable quality commitment and asset mix for the Fixed Income and cash components:

<b>Investment Manager</b>	<b>Mandate</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>
Adroit Investment Management	Long Term Government of Canada Bonds	90%	100%	100%
Adroit Investment Management	Cash	0%	10%	0%

7.2.2 In periods of net cash outflow, a small portion of up to 10% of the PRT may be allocated to cash.

7.2.3 Notwithstanding the asset mix guidelines above, the Trustee may authorize temporary asset mix positions outside these ranges where the Trustee deems it appropriate, including, for example, to accommodate an asset liquidation to fund reclamation work, and asset restructuring due to an approved changing investment strategy, or a transition between Investment Managers.

### **7.3 Rebalancing**

7.3.1 The investments shall be periodically rebalanced in the direction of the above asset mix guidelines.

7.3.2 When funds are contributed to or distributed from the PRT, consideration shall be given to bringing the asset mix, in effect at the time of that transaction, closer to the asset mix required by the guidelines.

7.3.3 The investments shall be rebalanced when:

- (a) there is a material change in investment strategy; or

- (b) the market value of the investments' asset components falls outside of the minimum or maximum range specified above.

## **7.4 Evaluation of Investment Management Performance**

- 7.4.1 The Investment Manager's performance will be evaluated quarterly. Such an analysis will include both quantitative and qualitative measures. The Investment Manager shall prepare its own calculations of the Rate of Return earned by the PRT and present the results in accordance with the CFA Institute's Performance Presentation Standards.
- 7.4.2 Quantitative performance of the Investment Manager will be considered satisfactory if the net annualized return (on market value before deduction of management fees) over rolling four-year periods exceeds the target set for the Investment Manager, as described in section 6.3.
- 7.4.3 In addition to the quantitative tests, each Investment Manager will be evaluated on certain qualitative standards. Qualitative evaluation will include:
  - (a) adherence to this Statement including the responsibilities set out in section 5.3 and the constraints set out in section 8;
  - (b) adherence to the investment approach and decision-making process for which the Investment Manager was hired;
  - (c) changes in the Investment Manager firm, including ownership, organisational structure and key investment personnel; and
  - (d) legal or regulatory proceedings against the Investment Manager, investment personnel or any sub-advisor firm.
- 7.4.4 An Investment Manager's suitability will be subject to review, if at any time the Committee believes that the Investment Manager will not achieve the performance objective set out for it as per the above quantitative standards. Furthermore, an Investment Manager's suitability will be subject to immediate review if it fails to meet one or more of the qualitative standards.

## **7.5 Fee Structure**

The fee structure for the Trustee, Investment Manager and the Custodian will provide for an annual fee calculated using a basis point scale multiplied by the value of assets under management the details of which are provided in Appendix B. There will be no incentive fees.

## **8. CONSTRAINTS**

### **8.1 Permitted Investments**

- 8.1.1 Any investment that is not a "Permitted Investment" is strictly prohibited.
- 8.1.2 Permitted Investments are all or any of those investments that from time to time are "qualified investments" for a PRT, as defined in the Tax Act, and for greater certainty, such investments on the date hereof include only those types of property described in paragraphs (a), (b), (c), (c.1), (d), and (f) of the definition of "qualified investment" in section 204 of the Tax Act that are not a "prohibited investment" as described in subsection 211.6(1) of the Tax Act, and as described in Appendix A to this Statement.
- 8.1.3 For greater certainty, Securities issued by the following parties are not Permitted Investments:
  - (a) Trans Mountain or its partners,
  - (b) persons "related" to Trans Mountain or its partners, as defined in the Tax Act,
  - (c) partnerships "affiliated" with Trans Mountain or its partners, as defined in the Tax Act, and
  - (d) persons or partnerships in which Trans Mountain or its partners holds a "significant interest", as defined in the Tax Act.

## **8.2 Liquidity Requirements**

- 8.2.1 Investments should have sufficient liquidity to meet the PRT's obligations as they come due.
- 8.2.2 There are currently no Liquidity requirements that would impede or restrict the investment of the Fund.
- 8.2.3 The Committee will review the Liquidity requirements of the PRT at least once every five years and will, if necessary, revise the asset mix accordingly.
- 8.2.4 The Trustee shall consult with the Committee prior to calling in or redeeming investments for the purpose of making a payment in accordance with the PRT.
- 8.2.5 At the discretion of the Trustee, excess Liquidity may be capitalized and added to the assets entrusted to the Investment Manager.
- 8.2.6 The Investment Manager shall consult with the Trustee prior to calling in or redeeming investments for the purpose of distributing funds for reclamation purposes.

## **8.3 Other Constraints**

- 8.3.1 Borrowing on behalf of the PRT shall be strictly prohibited.
- 8.3.2 All investments will be made in accordance with Standard III of the CFA Institute's Standards of Professional Conduct. The standard requires that the Investment Managers, when taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client.
- 8.3.3 The Trustee and the Committee will not accept deviations from this Statement.
- 8.3.4 Investments in debt obligations will have an investment grade rating with a prescribed rating agency at the time of purchase.
- 8.3.5 If the credit rating for any fixed income or cash and equivalent holding drops below the minimum specified in this Statement, the Investment Manager must notify the Trustee and the Company as soon as practicable and recommend a specific course of action.

## **8.4 Pooled Funds**

Where the assets of the PRT are invested in pooled funds or mutual funds, the Committee shall review the Investment Manager's internal investment policy of such pooled fund and may accept its provisions in lieu of those in this Statement, so as to avoid conflict. However, the performance criteria in section 7 above will still apply.

## **9. CONFLICTS OF INTEREST**

### **9.1 Affected Parties**

This section applies to:

- (a) the Trustee;
- (b) the Investment Manager;
- (c) the Custodian; and
- (d) the Consultant.

### **9.2 Conflicts of Interest**

9.2.1 Subject to section 9.3, no party listed in section 9.1 may exercise its powers in its own interest or in the interest of a third person, nor may it place itself in a situation of conflict or potential conflict between its personal interest and its duties with regard to the investment of the PRT.

9.2.2 Subject to section 9.3, any party listed in 9.1 must disclose any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the investments of the Fund, immediately on becoming aware of the conflict. Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Fund, or any significant holdings, or the membership on the boards of other corporations, or any actual or proposed contracts. Disclosure must be made orally if the knowledge of the conflict arises in the course of discussion at a meeting. If the party disclosing the conflict has the capacity to participate in or to make decisions affecting the investments of the Fund, the party may only continue to participate with the approval of the Committee. The party may elect not to participate with respect to the issue in conflict.

### **9.3 Self-Dealing of Trustee**

Notwithstanding section 9.2, where permitted under section 5.2 of the PRT Agreement, the Trustee or any of its divisions, branches or affiliates shall be authorized to:

- 9.3.1 appoint, employ, invest in, contract or deal with any individual, firm, partnership, association, trust or body corporate, including without limitation, itself and any of its Affiliates whether on its own account or for the account of another (in a fiduciary capacity or otherwise);
- 9.3.2 have a material interest in any transaction in which the circumstances are such

that the Trustee may have a potential conflict of duty or interest as further described in section 5.2.2(a) of the PRT Agreement; or

9.3.3 earn profits from any of the activities described in section 9.3.1 or 9.3.2;

without being liable to account therefor under section 9.2.2 and such actions or interests in and of themselves shall not violate the terms of this Statement, provided always that the Trustee otherwise complies with the terms of this Statement and the PRT Agreement.

## **10. DELEGATION OF VOTING RIGHTS AND VALUATION OF INVESTMENTS**

### **10.1 Delegated Responsibility**

The Investment Manager is delegated the responsibility of directing the Custodian in the exercise of voting rights acquired through the PRT investments. The Investment Manager will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the PRT as outlined in this Statement. The Investment Manager must provide the Committee with a written summary of all significant and/or non-routine voting matters at least annually.

### **10.2 Valuation of Investments**

The value of all regularly traded investments will be their market value. Where the market value cannot be readily determined by reference to generally-available price quotations, the investment shall be valued as frequently as is practical, but not less frequently than once every two years, by independent appraisal or by such other method as, in the opinion of the Committee, provides a fair and reasonable value in relation to the current situation in the relevant market. In the absence of a valuation on such basis, the investment will be carried at book value.

## **11. MISCELLANEOUS**

### **11.1 Notice of Amendment to the NEB**

Pursuant to page 44 of MH-001-2013:

11.1.1 notice of any changes to this Statement, except the immaterial changes described in section 11.2, shall be filed with the NEB at least 60 days prior to the implementation of the change;

11.1.2 notice to the NEB shall take the form of a letter which: (i) identifies the change; (ii) provides a clear articulation of the risk and return among the Pipeline and stakeholders, including shippers and any affected public; and (iii) explains whether the change is supported by the company's shippers and interested persons; and

11.1.3 the Committee must attach a copy of the amended Statement or other investment document (if applicable) to its notification letter to the NEB.

## **11.2 Immaterial Changes**

Pursuant to page 44 of MH-001-2013, the following are considered immaterial changes that do not need to be filed with the NEB:

11.2.1 subtracting a year from the time horizon due to the passage of time; and

11.2.2 a less than or equal to a 25 basis point change in the expected rate of return on a particular asset class, as set out in the Statement filed with the Board.

## **11.3 Review and Amendment**

This Statement shall be reviewed every year from its effective date to determine its effectiveness and appropriateness. This Statement may be amended at any time.

## **11.4 Paramountcy**

In the event of a conflict between the terms of this Statement and the PRT Agreement, the PRT Agreement shall prevail.

<b>Action</b>	<b>Date</b>
Adopted	January 1, 2015
Amended	May 29, 2015

– APPENDIX A –  
QUALIFIED INVESTMENTS

The relevant paragraphs of the definition of "**qualified investment**" in section 204 of the Tax Act currently read as follows:

- (a) money (other than money the fair market value of which exceeds its stated value as legal tender in the country of issuance or money that is held for its numismatic value) and deposits (within the meaning assigned by the *Canada Deposit Insurance Corporation Act* or with a branch in Canada of a bank) of such money standing to the credit of the trust,
- (b) debt obligations described in paragraph (a) of the definition "fully exempt interest" in subsection 212(3) [*being a bond, debenture, note, mortgage, hypothecary claim or similar debt obligation*]
  - (i) *of, or guaranteed (otherwise than by being insured by the Canada Deposit Insurance Corporation) by, the Government of Canada,*
  - (ii) *of the government of a province,*
  - (iii) *of an agent of a province,*
  - (iv) *of a municipality in Canada or a municipal or public body performing a function of government in Canada,*
  - (v) *of a corporation, commission or association to which any of paragraphs 149(1)(d) to (d.6)<sup>1</sup> applies, or*

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<sup>1</sup> The applicable paragraphs in subsection 149(1) of the Tax Act read as follows:

- (d) [**corporations owned by the Crown**] – a corporation, commission or association all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is Her Majesty in right of Canada or Her Majesty in right of a province;
- (d.1) [**corporations 90% owned by the Crown**] – a corporation, commission or association not less than 90% of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is Her Majesty in right of Canada or Her Majesty in right of a province;
- (d.2) [**wholly-owned [by Crown corporation] corporations**] – a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is a corporation, commission or association to which this paragraph or paragraph (d) applies for the period;
- (d.3) [**90% [Crown] owned corporations**] – a corporation, commission or association not less than 90% of the shares (except directors' qualifying shares) or of the capital of which was owned by:
  - (i) one or more persons each of which is Her Majesty in right of Canada or a province or a person to which paragraph (d) or (d.2) applies for the period, or
  - (ii) one or more municipalities in Canada in combination with one or more persons each of which is Her Majesty in right of Canada or a province or a person to which paragraph (d) or (d.2) applies for the period;
- (d.4) [**combined [Crown] ownership**] – a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is a corporation, commission or association to which this paragraph or any of paragraphs (d) to (d.3) applies for the period;
- (d.5) [**[municipally-owned corporation earning] income with boundaries of entities**] – subject to subsections (1.2) and (1.3), a corporation, commission or association not less than 90% of the capital of which was owned by one or more entities each of which is a municipality in Canada, or a municipal or public body performing a function of government in

- (vi) *of an educational institution or a hospital if repayment of the principal amount of the obligation and payment of the interest is to be made, or is guaranteed, assured or otherwise specifically provided for or secured by the government of a province,*
- (c) debt obligations issued by
  - (i) a corporation, mutual fund trust or limited partnership the shares or units of which are listed on a designated stock exchange in Canada,<sup>2</sup>
  - (ii) a corporation the shares of which are listed on a designated stock exchange outside Canada,<sup>3</sup> or
  - (iii) an authorized foreign bank<sup>4</sup> and payable at a branch in Canada of the bank,

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Canada, if the income for the period of the corporation, commission or association from activities carried on outside the geographical boundaries of the entities does not exceed 10% of its income for the period;

- (d.6) **[subsidiaries of municipal corporations]** – subject to subsections (1.2) and (1.3), a particular corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more entities (referred to in this paragraph as "qualifying owners") each of which is, for the period, a corporation, commission or association to which paragraph (d.5) applies, a corporation to which this paragraph applies, a municipality in Canada, or a municipal or public body performing a function of government in Canada, if no more than 10% of the particular corporation's income for the period is from activities carried on outside
- (i) if a qualifying owner is a municipality in Canada, or a municipal or public body performing a function of government in Canada, the geographical boundaries of each such qualifying owner,
  - (ii) if paragraph (d.5) applies to a qualifying owner, the geographical boundaries of the municipality, or municipal or public body, referred to in that paragraph in its application to each such qualifying owner, and
  - (iii) if this paragraph applies to a qualifying owner, the geographical boundaries of the municipality, or municipal or public body, referred to in subparagraph (i) or paragraph (d.5), as the case may be, in their respective applications to each such qualifying owner.

<sup>2</sup> A "designated stock exchange" is defined in subsection 248(1) of the Tax Act as a "stock exchange, or that part of a stock exchange, for which a designation by the Minister of Finance under Section 262 of the Tax Act is in effect". Section 262 gives the Minister the authority to designate a stock exchange or part thereof for the purposes of the Tax Act. Pursuant to subsection 262(4) of the Tax Act, the Minister of Finance is required to post on the internet website of the Department of Finance or by any other means considered appropriate, the names of the stock exchanges or parts thereof that are designated under section 262. The current list can be found at <http://www.fin.gc.ca/act/fim-imf/dse-bvd-eng.asp>. In Canada, the designated stock exchanges include the Canadian National Stock Exchange (CNSX), the Montreal Exchange, the TSX Venture Exchange (Tiers 1 and 2) and the Toronto Stock Exchange.

<sup>3</sup> *Ibid.* The Department of Finance website referred to also includes the list of designated stock exchanges outside Canada.

<sup>4</sup> An "authorized foreign bank" is defined in subsection 248(1) of the Tax Act as having the meaning in Section 2 of the *Bank Act* (Canada), being "a foreign bank that is the subject of an order under subsection 524(1)". Subsection 524(1) states that on application by a foreign bank, the Minister may make an order permitting the foreign bank to establish a branch in Canada to carry on business in Canada under Part XII.1 of the *Bank Act* (Canada). The definition of "foreign bank" is found in Section 2 of the *Bank Act*. It reads:

"foreign bank", subject to Section 12, means an entity incorporated or formed by or under the laws of a country other than Canada that (a) is a bank according to the laws of any foreign country where it carries on business, (b) carries on a business in any foreign country that, if carried on in Canada, would be, wholly or to a significant extent, the business of banking, (c) engages, directly or indirectly, in the business of providing financial services and employs, to identify or describe its business, a name that includes the word "bank", "banque", "banking" or "bancaire", either alone or in combination with other words, or any word or words in any language other than English or French corresponding generally thereto, (d) engages in the business of lending money and accepting deposit liabilities transferable by cheque or other instrument, (e) engages, directly or indirectly, in the business of providing financial services and is affiliated with another foreign bank, (f) controls another foreign bank, or (g) is a foreign institution, other than a foreign bank within the meaning of any of paragraphs (a) to (f), that controls a bank incorporated or formed under this Act, but does not include a subsidiary of a bank named in Schedule I as that Schedule read immediately before the day section 184 of the *Financial Consumer Agency of Canada Act* comes into force, unless the Minister has specified that subsection 378(1) no longer applies to the bank.

- (c.1) debt obligations that meet the following criteria, namely,
- (i) any of
    - (A) the debt obligations had, at the time of acquisition by the trust, an investment grade rating with a prescribed credit rating agency,<sup>5</sup>
    - (B) the debt obligations have an investment grade rating with a prescribed credit rating agency,<sup>6</sup> or,
    - (C) the debt obligations were acquired by the trust in exchange for debt obligations that satisfied the condition in clause (A) and as part of a proposal to, or an arrangement with, the creditors of the issuer of the debt obligations that has been approved by a court under the *Bankruptcy and Insolvency Act* or the *Companies' Creditors Arrangement Act*, and
  - (ii) either
    - (A) the debt obligations were issued as part of a single issue of debt of at least \$25 million, or,
    - (B) in the case of debt obligations that are issued on a continuous basis under a debt issuance program, the issuer of the debt obligations had issued and outstanding debt under the program of at least \$25 million,
  - (d) securities (other than futures contracts or other derivative instruments in respect of which the holder's risk of loss may exceed the holder's cost) that are listed on a designated stock exchange,<sup>7</sup> and
  - ...
  - (f) guaranteed investment certificates issued by a trust company incorporated under the laws of Canada or of a province.
  - ...

The definition of "**prohibited investment**" in subsection 211.6 of the Tax Act currently reads as follows:

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<sup>5</sup> Pursuant to regulation 4900(2) of the *Income Tax Regulations* (Canada), the following are prescribed credit rating agencies for the purposes of section 204: A.M. Best Company Inc.; DBRS Limited; Fitch, Inc.; Moody's Investors Service Inc.; and Standard & Poor's Financial Services LLC.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Supra* note 2.

"prohibited investment", of a trust at any time, means a property that

- (a) at the time it was acquired by the trust, was described by any of paragraphs (c), (c.1) or (d) of the definition "qualified investment" in section 204; and
- (b) was issued by
  - (i) a person or partnership that has contributed property to, or that is a beneficiary under, the trust,
  - (ii) a person that is related to, or a partnership that is affiliated with, a person or partnership that has contributed property to, or that is a beneficiary under, the trust, or
  - (iii) a particular person or partnership if
    - (A) another person or partnership holds a significant interest (within the meaning assigned by subsection 207.01(4) with any modifications that the circumstances require)<sup>8</sup> in the particular person or partnership, and
    - (B) the holder of that significant interest has contributed property to, or is a beneficiary under, the trust.

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<sup>8</sup> Subsection 207.01(4) reads:

- (4) [**Significant interest**] – An individual has a significant interest in a corporation, partnership or trust at any time if
- (a) in the case of a corporation, the individual would, at that time, be a specified shareholder of the corporation...;
  - (b) in the case of a partnership, the individual, or the individual together with persons and partnerships with which the individual does not deal at arm's length, holds at that time interests as a member of the partnership that have a fair market value of 10% or more of the fair market value of the interests of all members in the partnership; and
  - (c) in the case of a trust, the individual, or the individual together with persons and partnerships with which the individual does not deal at arm's length, holds at that time interests as a beneficiary (in this paragraph, as defined in subsection 108(1)) under the trust that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the trust.

**– APPENDIX B –  
SERVICE PROVIDER FEE TABLE**

Role	Service Provider	Assets Under Management <sup>9</sup>	Annual Fee
Trustee	Valiant Trust	Base Fee	\$4,375
		First \$5,000,000	Included in Base Fee
		Next \$20,000,000	0.03%
		Next \$75,000,000	0.02%
		Next \$400,000,000	0.01%
		Next \$1,000,000,000	0.0075%
		Over \$1,500,000,000	0.0050%
Custodian	Canada Western Bank	First \$5,000,000	0.06%
		Next \$20,000,000	0.03%
		Next \$75,000,000	0.02%
		Next \$100,000,000	0.02%
		Next \$300,000,000	0.018%
		Next \$500,000,000	0.015%
Investment Manager	Adroit Investment Management	First \$5,000,000	0.30%
		Next \$20,000,000	0.20%
		Next \$75,000,000	0.15%
		Next \$100,000,000	0.125%
		Next \$300,000,000	0.10%
		Next \$500,000,000	0.075%

<sup>9</sup> Except for the Base Fee, the fees are calculated using the total cumulative assets under management for both Trans Mountain Pipeline ULC and Kinder Morgan Cochin ULC and then allocated to each trust according to their respective asset balances.