

The Reynolds Family

Purpose

The Investment Policy Statement (IPS) is a strategic guide to the planning and implementation of the family's investment program for its total family wealth. It provides a framework for managing your investment assets and will prescribe the structure, content and administration of your portfolio.

Objectives

The portfolio is to be constructed to:

- Preserve capital
- Provide income to fund spending and donation requirement
- Provide reasonable prospects for growth within a moderate risk context
- Provide some limited liquidity

Specifically:

- The portfolio will be expected fund annual family lifestyle income requirements of \$X million
- The family intends to continue its tradition of funding all education costs of its descendants for as long as possible and fund discretionary investments in family member's entrepreneurial ventures. In recent years this has averaged \$1 million per year. This funding is expected to come from the HEW Trust
- The family would like to be able to provide additional funds to the Reynolds Family Foundation of \$20 million on the death of James Cuscadan IV
- The family would like to retain the purchasing power of the capital and grow the funds modestly after distributions

The first step in putting together your Annual Investment Policy Statement, is to define your own Investment Profile

Investment Profile			
Timeframe	Short term	Medium term	Long term
Risk Appetite	low	medium	high
Liquidity	high	medium	low
Savings Rate	low	medium	high
Contingency Needs	high	medium	low
Investment Expertise	low	medium	high

The second step is to define your objectives clearly, which will be turned into informed action in the IPS

Investment Objectives
1. Double value of total family financial assets in seven years (after mandated reinvestment)
2. Distributions below sustainable rate of withdrawal
3. Shift to top-decile managers only, using EFIM (Elite Family Investment Manager)
4. Diversification of managers
5. High-quality reporting

Investment Principles

The portfolio will be managed based on the following investment principles:

- Diversification among uncorrelated asset classes can help to reduce risk.
- Sound investment in illiquid assets can add to return. The family is able to withstand some illiquidity due to the size of its assets and the long-term nature of its objective.
- Investment fees should be minimized where possible due to the large negative effect they have on investment returns.
- Since the family and its entities are taxable for the most part, sensible tax savings strategies and tactics should figure into the investment policy where possible.
- Investments should be purchased with a margin of safety where possible. Chasing return, following the crowd and speculative securities are not appropriate strategies for this portfolio.
- Reinvestment of dividends and investment returns (net of income requirements) is an important way to grow capital.

Risk Tolerance

The family recognizes that the long-term objectives of the portfolio cannot be achieved without incurring a certain level of risk, and that there are uncertainties within capital markets. The family's investment profile reflects an acceptance of the degree of volatility associated with a portfolio of equities, fixed income and alternative or illiquid asset classes including hedge funds, private equity, real estate and others.

A list of risks that need to be considered by the family relative to our investment objectives is included in the Appendix.

Portfolios with an emphasis on long term growth will tend to experience wider price fluctuations in the short-term than over a full investment cycle. In those years when returns are above this range, the excess return can either be considered a reserve for those years when the return falls below this range, or an addition to capital on which to earn future income. The allowable asset class universe in this investment policy is as follows:

- Cash and money market
- Bonds and fixed income
- Equities – domestic, global, emerging market
- Hedge funds
- Private equity
- Real estate
- Infrastructure
- Insurance
- Gold
- ETFs

Asset classes and categories specifically excluded from the investable universe include:

- Structured products
- Commodities
- Speculative securities
- Currencies
- Aviation securities (due to the family's continuing large exposure to the industry via Reynolds Aviation)
- Mutual funds
- Cyber currencies

Proposed Asset Allocation

The recommended allocation takes into account investment needs, time horizon, and ability to tolerate fluctuations in the value of the portfolio. Based on an investment profile and objective of achieving a return in the range of 7-8% per annum before fees, a portfolio could be allocated as follows.

The asset allocation recommended for the portfolio represents what we believe to be an appropriate balance among asset classes given our risk tolerance.

Rebalancing

A rebalancing of the portfolio may be recommended based on a substantial change in the mix of assets in the portfolio caused by relative price movements. At a minimum, this will be reviewed annually.

The Family Office with the approval of its Investment Committee and Board has the authority to make tactical allocations within the asset class ranges during the year.

	Target Average Asset Allocation	Asset Allocation Guideline Ranges	Guideline Ranges
	Asset Mix	Minimum	Maximum
Cash	5%	0%	10%
Fixed Income	15%	10%	25%
Equities	30%	20%	40%
Hedge funds	10%	0%	15%
Real estate	20%	10%	30%
Private equity	10%	5%	15%
Infrastructure	5%	0%	10%
Gold	5%	2%	5%
Total	100%		

Investment Manager Selection

Investment managers will be selected by the Mayfair Family Office based on the investment policy. The roster and selection guidelines will be reviewed on a regular basis by the investment committee. The manager selection process will be based on the following Five Ps guidelines: Performance, Policy, People, Process and Price.

Performance

The manager should have a proven minimum track record (3 years) of performance and an ability to meet the objectives of the mandate it is being given. We will target managers with evidence of a higher-than-average risk-adjusted return over relevant measurement periods relative to their peers, key benchmarks and/or a minimum absolute rate of return for the mandate.

Policy

Investing in an attractive area of the market with well-structured institutional investments.

People

The senior team of the Investment Manager must have been together for at least three years and have a mutual investment in the funds they manage. They must have clear succession plans as well.

Process

The manager should have a proven process to implement its investment mandate that is sensible, disciplined and repeatable. They should also have sound operational, administrative and regulatory policies and practices.

Price

The fees should be reasonable based on the products offered. The investment committee is sensitive to the level of fees and prefers not to use mutual funds or funds of funds where possible.

Custodian

The custodian(s) will be responsible for the execution, administration and reporting on the assets.

They will:

- Maintain possession of the securities owned by the family in separate accounts based on individual or entity
- Settle all transactions and collect dividends, income and distribution
- Provide monthly valuation and reporting on all holdings and transactions in the account

Reporting and Review

A performance report showing the return on your portfolio net of fees and carry, and compared to appropriate benchmarks should always be provided.

Regularly

Mayfair will communicate the investment (via James Reynolds, chair) whenever there are relevant issues to discuss. Family members can contact Mayfair when they have questions or other issues.

Monthly

The investment committee will receive reports from the custodian(s) each month detailing the holdings and all transactions with the accounts.

Quarterly

Mayfair will meet with the investment committee each quarter and will produce formal portfolio statements and transactions for each account together with a written investment outlook.

A performance report showing the return of the portfolio and appropriate benchmarks for return will also be provided.

Annually

Mayfair will provide a comprehensive portfolio review including performance evaluation, evaluation of financial market conditions, and a review of the specific circumstances of each entity on an annual basis.

The investment committee will be asked to review and re-approve the investment policy annually as well.