

## **Pacific Spirit Investment Management Inc.**

### **Client Disclosure Document**

#### **Our products and services**

We provide investment management services to you. Our investment management services cover conservative, personally tailored portfolios of equities, fixed income, and real estate investments on a fee-only basis. We will manage the assets in your accounts in our discretion, subject to the Investment Management Agreement between us, which includes your personal Investment Policy Statement.

#### **Your accounts**

Your accounts for which we provide those services include personal investment portfolio(s) in Canadian and/or US currencies, individual registered retirement savings plans (including locked-in plans), and tax free savings accounts. Before we trade for your accounts, we must decide if the security is suitable for that account.

#### **Learning about you**

Before we open an account for you, we have to establish your identity. At the same time, and from time to time, we will ask about your investment needs and objectives, your financial situation, and your risk tolerance. That helps us decide which investments are suitable. We explain under the Security Selections section how we determine suitability. The law also requires us to find out if you're an insider of any company whose shares trade publicly. We may also need other personal information in certain circumstances.

#### **Security Selections**

Equity investments may include investments in individual equities, equity mutual funds, and exchange traded funds.

Our equity investment style could be characterized as growth at a very reasonable price. The key characteristics of the companies whose equities are selected should be:

1. Stable or growing returns on equity.
2. Stable or growing profit as a percentage of revenue.
3. Consistent growth in revenue over time.
4. Consistent growth in earnings per share (or cash flow per share) over time.
5. Low debt leverage compared to its peer group.
6. Management that created the track record of superior profitability still in place with the company.

7. Barriers to entry that keep competitors from entering the industry and competing away the superior profitability of the company.
8. In an industry that is understood.
9. Steadily increasing dividend over time.
10. Track record of over 5 years (or a management team that has equivalent experience)
11. Available in the market at a discount to historical trading ranges.

It is rare that a company possesses all of these characteristics. Professional judgment is exercised in selecting companies that meet many of these characteristics.

Growing earnings (cash flow) enables companies to pay larger dividends over time. Consistent growth in dividends is important to achieving inflation-adjusted growth in income.

Equity mutual fund selections must be from funds with managers with superior track records who employ a successful investment management style (value, growth, and index). Where possible, F class mutual funds will be purchased. F class funds are the class of mutual funds that are only available to clients of fee for service advisors (such as Pacific Spirit Investment Management Inc.). Because F class funds do not pay trailer fees or commissions the management expense ratio is markedly lower than the regular class of the same fund that is available to the retail investor.

Fixed income investments may include government bonds (federal, provincial, and municipal, and crown agencies), corporate bonds, fixed income mutual funds, money market funds, exchange traded fixed income funds, preferred shares, term deposits and guaranteed investment certificates, mortgage investment corporations, and mortgages.

Fixed income mutual funds selections must be from funds with managers with superior track records. Where possible, F class mutual funds will be purchased. F class funds are the class of mutual funds that are only available to clients of fee for service advisors (such as Pacific Spirit Investment Management Inc.). Because F class funds do not pay trailer fees or commissions the management expense ratio is markedly lower than the regular class of the same fund that is available to the retail investor.

We exercise our judgment in determining the suitability of a security for an individual client account. In forming this judgment we assess the security's expected contribution to your investment objectives as outlined in your Investment Policy Statement, including: cash flow requirements, the security's liquidity, the contribution of the security to the risk of the portfolio, the ability of the security to provide increasing income, and the security's maturity date, if any. Adequate portfolio diversification and the tax treatment of any income and gains from the security

are also considered. We will also consider your employment and business interests and any information known to us about investments held elsewhere by you.

We will implement only those investment strategies that we reasonably believe will not materially and negatively impact your best interests. Moreover, we will decline to implement an investment strategy requested by you if we reasonably believe that strategy will materially and negatively impact your best interests.

### **Investment risks**

You should be aware of the risks involved when making investment decisions. They include the following non-exhaustive list:

**Price/Market Risk** – The value of your investments will fluctuate with market conditions. Several factors can influence market valuations, like economic developments, changes in interest rates, political changes, changes in foreign currency exchange rates, and catastrophic events. All investments are exposed to this risk.

**Currency Risk** – The value of your investments will fluctuate with changes in foreign exchange rates. Your portfolios may contain securities in another currency or trade in currencies other than the Canadian dollar.

**Credit Risk** – Credit risk is the risk that a counterparty to a financial instrument will fail to meet its commitments. Your portfolios may contain financial instruments like fixed income securities. The value of the fixed income security reflects the market's assessment of the counterparty's creditworthiness.

**Interest Rate Risk** – Prices of fixed income securities generally increase when interest rates decline and decrease when interest rates rise. This is known as interest rate risk. Prices of longer-term fixed income securities will generally fluctuate more in response to interest rate changes than short-term securities.

**Liquidity Risk** – Liquidity risk involves the ability to sell an asset for cash easily and at a fair price. Some securities are illiquid because of legal restrictions on their resale, the nature of the investment, or simply a lack of interested buyers for a particular security or security type. Certain securities may become less liquid due to changes in market conditions, such as interest rate changes or market volatility, which could impair the ability to sell such securities quickly or at a fair price. Difficulty in selling securities could result in a loss or lower return.

**Inflation Risk** – Inflation risk refers to the ability of a security to produce returns that exceed the rate of inflation. If an investment does not provide a return greater than the rate of inflation, the holder of the security suffers an erosion of purchasing power over time. Fixed

rate fixed income investments are particularly exposed to this risk, and the prices of longer-term fixed income securities will generally fluctuate more in response to inflation rate changes than short-term securities.

**Business Risk** – Business risk refers to the risks inherent in any business. These include competition, changes in laws, decisions made by management, structural changes in an industry, technological changes, new entrants, and others. Security prices will generally change in response to real or perceived changes in a business and the industry in which it operates.

### **Using borrowed money to invest (leverage/margin)**

Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. To what extent borrowing involves undue risk is a decision you must make, and it will vary depending on your circumstances and the securities being bought. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

You may buy securities with available cash, or a combination of cash and borrowed money. If you use only available cash, your gain or loss will equal the increase or decrease in the value of the security. Using borrowed money to buy securities magnifies the gain or loss. This effect is called leveraging. Let's say you use \$25,000 from available cash and borrow \$75,000 to purchase \$100,000 of securities. If the value of the securities declines by 10% to \$90,000, your equity interest (the difference between the value of the securities and the amount borrowed) will decline by 40%, from \$25,000 to \$15,000.

It is also important that you are aware of the terms of a loan secured by securities. The lender may insist that the amount outstanding on the loan not rise above an agreed percentage of the market value of the securities. If it does rise above the agreed percentage, you would have to pay down the loan or sell the securities to return to the agreed percentage. Using our example above, say the lender insists that the loan not exceed 75% of the market value of the securities. If the value of the securities declines to \$90,000, you must reduce the loan to \$67,500 (75% of \$90,000). If you don't have cash available, you would have to sell the securities at a loss to provide money to reduce the loan to the agreed percentage.

Of course, you must also pay interest on the loan. If you are thinking of borrowing to invest, you should have adequate financial resources available both to pay interest and also to reduce the loan if the borrowing arrangements require such a payment.

### **Conflicts of interest**

Currently, we are unaware of anything that could be a conflict of interest between you and us. Conflicts of interest will rarely happen. If there is a conflict of interest, we will tell you in writing, and you will have the opportunity to decide if we should try and remove the conflict or go ahead despite the conflict.

There may be conflicts with other clients when we allocate investment opportunities. We do our best to avoid those by:

- not preferring any account or type of account when we allocate those opportunities
- treating all clients fairly and reasonably when we enter combined or block trades by averaging price and commissions
- pro-rating allocations as far as possible when a block trade is smaller than the total order for the session (but we consider other factors as well, like board lot positions, ratio of the securities to the portfolio, industry or security type weighting in the portfolio, and the portfolio's cash reserve position)
- pro-rating allocations as far as possible when subscriptions for an initial public offering are smaller than the indicated interest (again, we consider other factors like board lot positions, ratio of the securities to the portfolio, industry or security type weighting in the portfolio, and the portfolio's cash reserve position)

### **Soft dollar arrangements**

Soft dollar arrangements are arrangements where a dealer or someone else we deal with pays us in goods or services instead of cash, or vice versa. We don't have soft dollar arrangements.

### **Referral arrangements**

We don't, and we won't, pay or receive commissions for any investment or product we recommend to you or buy on your behalf.

### **Complaints**

If you have a complaint about any trades we've made for you or advice we've given you, we will make independent dispute resolution services available to you, for which we will pay. The independent dispute resolution service mandated by regulators is the Ombudsman for Banking Services and Investments (OBSI). Our complaint process is as follows:

### **Filing a complaint with us**

If you have a complaint about our services or a product, contact us at:

John S Clark, Chief Compliance Officer  
Pacific Spirit Investment Management Inc.  
1100 – 800 West Pender, Vancouver BC V6C 2V6

Email: [johnsclark@pacificspirit.ca](mailto:johnsclark@pacificspirit.ca)  
Phone: 604-687-0123  
Fax: 604-687-0128

Please tell us what went wrong, when it happened and what you expect, for example, money back, an apology, or account correction. You may want to consider using a method other than email for sensitive information.

### **We will acknowledge your complaint**

We will acknowledge your complaint in writing, as soon as possible, typically within 5 business days of receiving your complaint.

We may ask you to provide clarification or more information to help us resolve your complaint.

### **We will provide our decision**

We will normally provide our decision in writing, within 90 days of receiving a complaint. It will include a summary of the complaint, the results of our investigation, our decision to make an offer to resolve the complaint or deny it, and an explanation of our decision.

### **If our decision is delayed**

If we cannot provide you with our decision within 90 days, we will inform you of the delay, explain why our decision is delayed, and give you a new date for our decision. You may be eligible for the independent dispute resolution service offered by the Ombudsman for Banking Services and Investments (OBSI).

### **If you are not satisfied with our decision**

You may be eligible for OBSI's dispute resolution service.

### **If you are a Québec resident**

You may consider the free mediation service offered by the Autorité des marchés financiers.

### **Help us resolve your complaint sooner**

- Make your complaint as soon as possible.
- Reply promptly if we ask you for more information.
- Keep copies of all relevant documents, such as letters, emails and notes of conversations with us.

### **Taking your complaint to OBSI**

You may be eligible for OBSI's free and independent dispute resolution service if we do not provide our decision within 90 days after you made your complaint, or you are not satisfied with our decision. OBSI can recommend compensation of up to \$350,000.

OBSI's service is available to clients of our firm. This does not restrict your ability to take a complaint to a dispute resolution service of your choosing at your own expense, or to bring an action in court. Keep in mind there are time limits for taking legal action.

#### **A word about legal advice**

- You always have the right to go to a lawyer or seek other ways of resolving your dispute at any time.
- A lawyer can advise you of your options.
- There are time limits for taking legal action.
- Delays could limit your options and legal rights later on.

### **Who can use OBSI?**

You have the right to use OBSI's service if:

- your complaint relates to a trading or advising activity of our firm or by one of our representatives
- you brought your complaint to us within 6 years from the time that you first knew, or ought to have known, about the event that caused the complaint, and
- you file your complaint with OBSI according to its time limits below

### **Time limits apply**

- If we do not provide you with our decision within 90 days, you can take your complaint to OBSI any time after the 90-day period has ended.
- If you are not satisfied with our decision, you have up to 180 days after we provide you with our decision to take your complaint to OBSI.

### **Filing a complaint with OBSI**

Email: [ombudsman@obsi.ca](mailto:ombudsman@obsi.ca)

Telephone: 1-888-451-4519

416-287-2877 (in Toronto)

OBSI works confidentially and in an informal manner. It is not like going to court, and you do not need a lawyer. During its investigation, OBSI may interview you and representatives of our firm. We are required to cooperate in OBSI's investigations.

Once OBSI has completed its investigation, it will provide its recommendations to you and us. OBSI's recommendations are not binding on you or us.

OBSI can recommend compensation of up to \$350,000. If your claim is higher, you will have to agree to that limit on any compensation you seek through OBSI. If you want to recover more than \$350,000, you may want to consider another option, such as legal action, to resolve your complaint. For more information about OBSI, visit [www.obsi.ca](http://www.obsi.ca).

#### **Information OBSI needs to help you**

OBSI can help you best if you promptly provide all relevant information, including:

- your name and contact information
- our firm's name and contact information
- the names and contact information of any of our representatives who have been involved in your complaint
- details of your complaint all relevant documents, including any correspondence and notes of discussions with us

#### **Sending you statements**

Your account custodian will send you statements on our behalf, according to the agreement between you and the custodian. These statements will be sent to you monthly if there is activity in your account, otherwise they will be sent quarterly. The statements will detail, for the period, the date and type of transactions, if any, the name, number, and price of securities bought or sold, and the total value of each transaction and the period end security positions. The statements will also detail your account position for the period, including the name and quantity of each security, the market value of each security, the total market value of each security position, any cash balance, the total market value of all cash and securities, whether the account is covered under an investor protection fund, and which securities may be subject to a deferred sales charge when sold.

Where we hold securities in trust for you, we will send you a statement quarterly or monthly, if you request. Our statements will detail, for the period, the same particularized information for your securities that you receive from your custodian as described above.

When determining market value for your securities, the Securities Regulators require that we use a hierarchy of valuation methods that range from referring to a price quotation on a marketplace (e.g., TSX and NASDAQ) or an inter-dealer quotation (e.g., the over-the-counter market) to

consistently applying a valuation method based on market data. The account statements will also provide you with position cost information so that you can compare the position cost for your securities to their market value. You must review the statements promptly and tell us and the custodian in writing if there are any errors. If not, you will be considered to have accepted them as correct.

### **Communicating with you**

We will communicate with you by mail, phone, or email. You may at any time withdraw any consent you've given us to send you email and we will stop sending emails to you 10 days after you withdraw your consent.

### **Our fees**

#### ***Investment Management Services***

First \$1,000,000 of assets	1.00% per annum
Second \$1,000,000 of assets	0.75% per annum
Next \$3,000,000 of assets	0.65% per annum
Next \$5,000,000 of assets	0.50% per annum
In excess of \$10,000,000	negotiable

Fees are payable in arrears from the account, based on the previous quarter-end market value. We will give you 60 days' written notice of our intention to increase fees.

#### ***Other Services***

Other services are on a negotiated fee basis, generally based on a fee per hour, plus out of pocket costs.

### **Our privacy policy**

Our privacy policy is available on our website by following the FAQs link at the bottom of our Home page. We will also provide you with a copy on request.

Pacific Spirit may hold data with cloud service providers in the United States and other jurisdictions.

### **Termination of services**

Our clients may terminate their relationship with Pacific Spirit Investment Management Inc. at any time without notice. Pacific Spirit Investment Management Inc. is required to provide a minimum 30 days' notice to terminate the relationship.

## **Benchmarks and performance**

It is the Manager's opinion that the best way to benchmark your portfolio performance is against a personalized plan. A personalized plan is tailored to you and includes the key factors that will impact on your plan. The Securities Regulators require that when the Manager reports performance we provide you with benchmark indices for comparison. When the Manager reports performance statistics for the Accounts, performance will be reported net of our fees. We will also provide relevant benchmarks for comparison purposes.

At present we use the S&P TSX Composite index, the S&P 500 Index (in Canadian dollars), and the NASDAQ Composite index (in Canadian dollars) for our equity benchmarks and the Bank of America Merrill Lynch Canada Broad Market index for fixed income. Morningstar is our source for benchmark returns. In the event that Morningstar ceases to provide information on any of these indices we will substitute a similar index. Comparison to benchmark indices may provide you with information about how your portfolio has performed compared to the general market indices.

## **Governance and Ownership**

Directors	John and Sharan Clark	<a href="mailto:johnsclark@pacificspirit.ca">johnsclark@pacificspirit.ca</a>
Chief Compliance Officer	John S Clark	<a href="mailto:johnsclark@pacificspirit.ca">johnsclark@pacificspirit.ca</a>
Deputy Compliance Officer	Dennis Wan	<a href="mailto:dfw@pacificspirit.ca">dfw@pacificspirit.ca</a>
Ultimate Designated Person	John S Clark	<a href="mailto:johnsclark@pacificspirit.ca">johnsclark@pacificspirit.ca</a>

The voting shares of Pacific Spirit Investment Management Inc. are owned by John S Clark. Sharan Clark, 415277 BC Ltd., and the Clark Family Trust (2015) own non-voting shares of Pacific Spirit Investment Management Inc. John S Clark owns all of the outstanding shares of 415277 BC Ltd. 415277 BC Ltd. is considered a related party to Pacific Spirit Investment Management Inc.

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