



**SKY INVESTMENT COUNSEL INC.**

---

**Item 1      Cover Page**

---

Sky Investment Counsel Inc.  
Form ADV Part 2A  
1 Adelaide St. East  
Suite 2310, P.O. Box 184  
Toronto, Ontario M5C 2V9  
[www.skyic.com](http://www.skyic.com)  
March 31, 2014

This brochure provides information about the qualifications and business practices of Sky Investment Counsel Inc.. If you have any questions about the contents of this brochure, please contact us at 416-623-7502 or [mmurray@skyic.com](mailto:mmurray@skyic.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sky Investment Counsel Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sky Investment Counsel Inc.  
Form ADV Part 2A  
March 31, 2014

Item 2      Material Changes

---

On July 28, 2010, the US Securities and Exchange Commission ("SEC") published Release No. 1A-3060, "Amendments to Form ADV", which changed the form and content of the Form ADV Part 2 Brochure.

This brochure has been completed in accordance with the new format mandated by the SEC.

Sky Investment Counsel Inc.  
Form ADV Part 2A  
March 31, 2014

Item 3      Table of Contents

---

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	3
Item 4	Advisory Business.....	4
Item 5	Fees and Compensation.....	4
Item 6	Performance-Based Fees and Side-by-Side Management.....	5
Item 7	Types of Clients.....	5
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9	Disciplinary Information.....	8
Item 10	Other Financial Industry Activities and Affiliations .....	8
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	8
Item 12	Brokerage Practices .....	9
Item 13	Review of Accounts .....	11
Item 14	Client Referrals and Other Compensation.....	11
Item 15	Custody.....	11
Item 16	Investment Discretion.....	12
Item 17	Voting Client Securities.....	12
Item 18	Financial Information.....	12

Sky Investment Counsel Inc.  
Form ADV Part 2A  
March 31, 2014

## Item 4      Advisory Business

---

Sky Investment Counsel Inc. (Sky) was established in July 2004 by Jennifer Witterick, President and CEO. Sky is organized as a corporation under Canadian law. Sky is regulated by the Ontario Securities Commission (OSC) in Canada and is a registered investment adviser with the SEC.

Sky is an independent majority employee-owned organization. The current ownership is as follows:

<b>Name of Owner(s) – Firm or employee name</b>	<b>% of Ownership</b>
Jennifer Witterick, President & Portfolio Manager	57%
Other firm employees	8%
Royal Bank of Canada	35%

Sky serves in a sub-advisory role on Canadian mutual funds for Royal Bank of Canada (formerly PH&N) and Northwest Mutual Fund. Our sub-advised funds are composed primarily of a diversified mix of institutional and retail investors from across Canada. Additionally, Sky also serves as the sole sub-adviser to an institutional international equity mutual fund which was launched by Frontegra Asset Management Company at the end of September, 2007.

As of December 31, 2013, Sky's assets under management were \$1.7 billion.

## Item 5      Fees and Compensation

---

Sky provides investment advisory and portfolio management services generally to individual, non-US domiciled pooled funds, institutional and investment company clients. Sky generally invests in international equity securities using a value mandate. Sky may, at its discretion, serve as an adviser to various other types of clients. Sky provides continuous advice to clients generally on a fully discretionary basis, although advisory services provided to client accounts are generally based on the individual needs and objectives of each such client and are subject to any investment guidelines and restrictions that may be imposed by such clients from time to time.

Fees for advisory services are billed on a quarterly basis, monthly if requested by the client, after the completion of each quarter-end period based on the average of each month-end value of the portfolio.

Annual fees for US-domiciled clients are applied as described within the following base fee schedule:

<b>Assets Under Management</b>	<b>Annual Fee</b>
First \$25 million	.80%
Next \$25 million	.60%
Over \$50 million	.40%

Sky Investment Counsel Inc.

Form ADV Part 2A

March 31, 2014

Fees may be negotiable under certain circumstances at the discretion of Sky management. Sky may use different fee schedules for clients domiciled in non-US countries, and such fees may be lower than the fees charged by Sky's current US fee schedule.

Sky currently serves as sub-adviser to various Canadian-registered mutual funds and may serve as adviser or sub-adviser to US-registered investment companies.

Sky receives a management fee for such services provided, as negotiated with the applicable fund and, where applicable, as outlined within the fund's prospectus.

Fees for management services are generally billed in arrears on a calendar-quarterly basis and at a rate of one-quarter of the annual fee, unless otherwise negotiated. Fees are generally based upon the market value of the account as of the last day of the prior quarter (as determined by the client's custodian). For purposes of valuing assets under management, related accounts will generally be combined for fee calculation purposes. The fee for any period which is less than a full quarter is pro-rated and adjustments are made with respect to partial withdrawals by a client during any billing period. Sky may time weight contributions or withdrawals it deems significant to the account for fee calculation purposes and as dictated by the investment management agreement.

Clients are also responsible for shareholder fees imbedded within the share price of securities such as mutual funds.

## Item 6 Performance-Based Fees and Side-by-Side Management

---

We have one client with a performance-based fee arrangement.

## Item 7 Types of Clients

---

Sky manages on a discretionary basis for institutional and private client portfolios, corporate ERISA clients, private & public pension funds, foundations and charitable organizations as well as other firms contracted through sub-advisory agreements. Sky is also the manager of Sky Pooled Funds (a group of non-registered, Canadian based pooled funds)

Currently we have nearly all client types represented in our sub-advised funds.

## Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

---

Our process is bottom-up in nature (roughly 80%). Top-down and macro-economic factors (roughly 20%) are considered as part of our assessment of the quality of the company. The entire investment team will analyze companies in the context of different macro-economic conditions, and stress test their abilities to withstand adverse conditions. This quantitative screening is important to identify companies that are inexpensive. Nothing will move to step two unless it's cheap and we can understand why it is cheap.

Sky Investment Counsel Inc.

Form ADV Part 2A

March 31, 2014

We are looking for companies selling at low valuations based on a wide variety of metrics including price to earnings, price to cash flow and attractive dividend yields. Thus, our initial research is focused on identifying companies that meet our valuation criteria. This valuation analysis is reviewed daily on each company in the portfolio as well as in our 600 working list universe. Those companies that are selling at a steep discount to their historical valuation, to their industry peer group and to the general market are highlighted for review.

We do screens on historical ROEs and P/B ratio to find the most attractive trade-offs. We also do screens on high dividend yielding stocks with strong fundamentals. In addition, we score companies based on many criteria which determine their quality rating.

When a company is identified, further work is immediately done to uncover why the stock is cheap. The specific analyst will discuss the findings with the team and portfolio manager to prioritize which names offer the most potential to warrant further attention.

Thorough research is then performed on the company, including industry and company-specific dynamics, growth and profitability as well as the company's financial strength. The culmination of our research is the compilation of an internally developed investment grade checklist used to score the overall quality of a company. This checklist ensures that all factors are considered and provides a quantitative assessment of quality. Critical factors within the checklist include business fundamentals and share liquidity.

In order to quantify each factor, a number is assigned from 1 (high) through 5 (low). Each firm is then assigned a total number based on the static weighting of the factors. This allows us to efficiently quantify the qualitative aspects of the investment. Our internal guidelines mandate that at least 75% of the portfolio are in the higher quality names (rated 1, 2 or 3). Once each component of the scorecard is complete, we are able to compare potential investments with what is currently held in the portfolio to ensure our best ideas are appropriately reflected.

The analysis involves determining a normalized Return on Equity for a company and comparing it to its Price to Book value. Therefore, although it is important for a company to be selling at the low end of its historical valuation, the absolute return is also critical to our assessment of the investment opportunity.

A buy decision is made when we identify good quality companies that are undervalued by at least 20%. The level of conviction, the upside potential, as well as the quality of the company, will determine the weighting. Working closely with the entire team, the portfolio manager ultimately determines the portfolio holdings and their weightings based on the expected rates of return and the level of conviction.

The portfolio is built from the bottom-up based on securities that meet our investment process criteria. As a result, country, sector and industry allocations tend to be a residual of the security selection process. In constructing portfolios, we adhere to strict construction guidelines that ensure diversification across sectors and countries in a controlled fashion.

Sector weightings are compared to the benchmark to ensure that building the portfolio from the bottom up has the end results that we would expect by sector. Regarding industry exposure, fundamental research is conducted to determine the long-term attractiveness of individual sectors.

Sky Investment Counsel Inc.

Form ADV Part 2A

March 31, 2014

Within each sector, the analysts select attractively valued securities that demonstrate superior returns on equity and price to book trade-offs. We maintain, the following sector limits – minimum of eight sectors, with a limit of 3x the sector's weight of the MSCI EAFE Index to a maximum of 30%. We will participate in all sectors, provided we find opportunities that meet our investment criteria. We can be out of a sector completely, but must have a minimum of eight sectors.

Country allocations are the result of our bottom-up security selection process and are compared to acceptable ranges for each country relative to the MSCI EAFE Index. Country and regional risk controls include a minimum of 12 countries held with regional weight ranges as follows:

Regional Weight Ranges:

Europe 0.33 - 1.5x

U.K. 0.33 - 1.5x

Asia/Japan 0.33 - 1.5x

Country Weight Ranges:

5% - 15% of Index Weight : 0 - 25%

0% - 5% of Index Weight : 0 - 15%

We maintain a maximum of 15% in emerging markets. Variations in the weighting of a country or region are monitored to ensure they remain within these acceptable ranges.

Liquidity is screened for early in the investment process and considered as part of our investment grade checklist criteria. We also review portfolio and holding liquidity on a regular basis.

We construct a model portfolio of between 60 and 90 securities. Futures, options and derivatives are usually excluded from the portfolio. The number of holdings fluctuates with our ability to identify securities that fit our strict investment criteria. The portfolio manager determines the individual position size. Typically, a normal position size is approximately 1.5%. The weight of a given security is dependent upon our level of conviction and the upside potential. Maximum position weight is 8%. All portfolios are managed to a model portfolio, thus accounts will mirror our model portfolio in terms of holdings and weights as well as sector and regional allocations.

In-depth research is done by all investment professionals including the portfolio managers and the analysts. The group will discuss and review the ideas with the weightings based on the expected rates of return and the level of conviction.

Portfolio risk is proactively managed through adherence to our strict construction guidelines that emphasize limiting individual position sizes and diversifying portfolios across sectors and countries in a controlled fashion. Our primary objective at the security level is to select securities that are priced at a discount. The discount is to protect the margin of error in our assessment of the valuation of the company. Quality criteria are embodied in the Investment Grade Checklist. Research reports are written on all companies that have been purchased and are reviewed regularly. Again, country and regional risk controls include a minimum of 12 countries held within regional weight ranges.

## Item 9 Disciplinary Information

---

There are no applicable legal or disciplinary events relating to Sky.

## Item 10 Other Financial Industry Activities and Affiliations

---

Sky Investment Counsel Inc. (Sky) was established in July 2004 by Jennifer Witterick, President and CEO. Partnering in Sky's founding was Phillips, Hager & North Investment Management Ltd. (PH&N), a 35% shareholder. In April, 2008, Royal Bank of Canada ("RBC") purchased PH&N. Sky continues in its role as a sub-advisor to PH&N clients at Royal Bank of Canada, who are primarily institutional investors from across Canada. RBC holds a non-controlling interest in the Corporation.

These relationships are subject to legislative and industry regulatory requirements that impose restrictions on dealings between related registered companies intended to minimize the potential for conflicts of interest resulting from these relationships. Sky, PH&N and the RBC operate as separate and distinct businesses, and although Sky does not believe that the relationships will give rise to conflicts, it has adopted policies and procedures to minimize the potential for conflict of interest resulting from such relationships.

## Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

---

Sky maintains a formal Code of Ethics policy ("Code") that sets forth the standards of conduct by which every employee of Sky is expected to follow.

Sky's fiduciary duty compels all employees to act with the utmost integrity. This is the core principle underlying the Code and Sky's related Personal Trading Policy, and represents the expected basis of all dealings with Sky's clients. In connection with these expectations, Sky has established core principles of conduct for its employees. These standards are consistent with Sky's core belief that ethical conduct is premised on the fundamental principles of openness, integrity, honesty and trust.

In connection with these standards, Sky places limits on the receipt and delivery of gifts to individuals doing business with Sky. Subject to a *de minimis* value outlined within the policy.

The Personal Trading Policy generally governs the personal securities trading of Sky employees, who are permitted to buy and sell securities that Sky also recommends to clients. Sky employees who have access to non-public information regarding any client purchase or sale of securities, portfolio holdings or recommendations are required to report personal securities transactions and holdings to Sky's Chief Compliance Officer. All investment personnel are subject to special rules and restrictions with respect personal trading. These include rules that deal with: pre-clearance; prohibited activities; initial and annual personal securities holdings reports; personal trading blackout periods; the provision of duplicate transaction confirmations; exempt securities; certifications of compliance; and breaches of the Code. A copy of Sky's Code is available upon request



## Item 12 Brokerage Practices

---

Sky generally determines which securities are bought or sold, the total amount of such purchases and sales, the broker-dealer through which the securities are to be traded and the commission rates at which transactions are effected. Sky's authority may be subject to conditions imposed by the client (e.g., where the client restricts or prohibits transactions in certain types of securities).

Sky's overriding objective in effecting portfolio transactions is to seek to obtain the best combination of net price and execution under the circumstances. The best net price, giving effect to brokerage commission, if any, and other transaction costs, is normally an important factor in this decision, but a number of other judgmental factors may also enter into the decision. These include: knowledge of and dominance in specific markets, securities and industries; quality of execution; ability to locate liquidity; research services provided; acceptable record keeping, administrative and settlement functions; and reputation and integrity. Recognizing the value of these factors, Sky may pay a brokerage commission in excess of that which another broker might have charged for affecting the same transaction.

From time to time, clients may direct Sky (subject to certain conditions which may be imposed by Sky) to effect portfolio transactions through particular brokers or dealers. Sky will generally not direct brokerage on a client's behalf unless specifically directed by the client in writing within the client investment advisory agreement or a separate letter of agreement. The custody of client assets by a broker-dealer will be treated by Sky as a direction by the client to execute all transactions through that broker dealer.

Clients who choose to direct Sky to use a particular broker or dealer may forgo any benefit from savings on execution costs that Sky could obtain for other clients, such as negotiating volume discounts on bunched orders, and may not receive the same price or commission paid by other clients who utilize different brokers. Further, trades in accounts where the client directs brokerage may be placed after fully-discretionary trades.

Clients may, from time to time, establish commission recapture arrangements with brokers through whom Sky places trades. In connection with such arrangements, Sky will generally not alter its base practices in allocating trades to brokers. Rather, Sky shall place trades in accordance with its customary practices and as described herein, and any benefit received by a client related to a trade placed in Sky's ordinary course of managing portfolios shall be the result of a separate arrangement between the client and the broker.

### Soft Dollars

Sky does not engage in pre-arranged soft dollar arrangements – those formal arrangements where Sky specifically directs portfolio brokerage commissions to a broker-dealer in return for services and research that Sky uses in making investment decisions for its clients. Sky, however, may consider the benefit of research services provided by broker-dealers (such as invitations to conferences, meetings with company management or general research) in allocating brokerage to a specific broker. All such arrangements are informal in nature, and are not the product of any formal arrangement with the broker-dealer to direct portfolio brokerage commissions in exchange for such research.

Sky Investment Counsel Inc.

Form ADV Part 2A

March 31, 2014

Allocation of Investment Opportunities

Investment opportunities are generally made available to all clients that are: 1) eligible to participate; and 2) where such investment opportunities are deemed to be appropriate for the specific client. The President is responsible for making these determinations. The following guidelines are considered by Sky in allocating investment opportunities:

- Investment opportunities are allocated based primarily upon the merits of the investment opportunity and the investment objectives, restrictions or styles of the client accounts (including limitations of cash available to invest).
- Investment opportunities are allocated without regard to factors that solely benefit Sky.
- Investments in Initial Public Offerings ("IPOs"), while expected to occur infrequently, are generally treated in the same manner as any other security.

Trade Aggregation and Allocation

Sky may, when deemed appropriate, aggregate trade orders and allocate trades among two or more of its clients. Sky may be able to decrease brokerage and transaction costs to its clients through volume discounts and lower commissions that may not be available to smaller volume transactions. Aggregating trades also may permit Sky to enter and exit securities markets on behalf of clients in an efficient and organized manner.

In some instances Sky bunches client trades into a single order (a "block") in an effort to obtain best execution at the best security price available. If a block order is filled (full or partial fill) at several prices through multiple trades, an average price is calculated for all trades executed, and all participants in the block trade receive the average price. In general, only trades executed within the block on the single day may be combined for purposes of calculating the average price.

Aggregated trades are generally allocated to underlying client accounts after completion of each trade. Partial fills are typically allocated to client accounts on a *pro rata* basis subject to rounding. While Sky consistently follows these practices, Sky may deviate from these practices if the standard method of aggregating or allocating trades would result in unfair or inequitable treatment to some or all of its clients.

It is customary in certain European markets (particularly those markets with a lower volume of trading activity) for broker-dealers to "warehouse" partially filled securities whereby the broker – dealer essentially holds shares executed for a limited period of time (generally a day or two) until the order is large enough to allocate across participating accounts. In such instances and where customary, clients may not receive shares allocated until the broker-dealer releases these warehoused securities.

Trade Error Correction

It is Sky's policy for clients to be made whole following a trade error. If a trade results in a loss, Sky will make the client whole and absorb the loss. If a trade error results in a gain, the client shall generally keep the gain.

## Item 13      Review of Accounts

---

Managed accounts are reviewed by the assigned Sky compliance and portfolio management personnel to ensure adherence to investment guidelines. Accounts and securities within actively managed accounts are reviewed regularly, no less frequently than monthly and such reviews are based on the individual needs of each client. Additionally, the account's portfolio manager is available to meet and/or consult with clients, as agreed upon by Sky and the client. There is no limit to the number of accounts assigned to the portfolio manager.

The client's custodian provides either monthly or quarterly reports to the client. Sky provides reports to clients monthly and quarterly or as mutually agreed upon by Sky and the client. Such reports include performance reports, an appraisal and summary of the client's portfolio, a review of the portfolio's performance or Sky's current investment outlook.

## Item 14      Client Referrals and Other Compensation

---

From time to time, Sky may pay solicitation fees for client referrals in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended. These fees will be paid from Sky's revenues and, therefore, client fees will not be increased as a result.

With respect to soliciting US-domiciled prospect, any cash referral fee paid to a solicitor must fall under a written agreement between the solicitor and Sky. Written agreements with unaffiliated solicitors must describe the entity's activities and compensation and contain an acknowledgement that the entity will perform duties under the agreement in a manner consistent with Sky's instructions and the provisions of the Advisers Act.

Sky will refrain from the following practices with respect to solicitation arrangements:

- A. Sky will not pay non-cash referral fees to solicitors (e.g., directed brokerage arrangements).
- B. Sky will not knowingly pay referral fees to a fiduciary of an ERISA plan in exchange for securing investment management services for such plan, unless the solicitation arrangement is structured to comply with applicable ERISA regulations.

## Item 15      Custody

---

Sky, consistent with regulatory authorities, defines custody as holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. As a matter of policy and practice, Sky does not permit employees or the firm to accept or maintain custody of client assets.

All client assets shall be held by a qualified custodian, which includes registered broker-dealers, bank and savings institutions, futures and commission merchants and foreign financial institutions that routinely hold financial assets for their customers.

Sky Investment Counsel Inc.

Form ADV Part 2A

March 31, 2014

Sky does not route original custodial statements to its clients on behalf of a custodian. Sky is responsible, within reason, to ensure clients receive custodial statements directly from the custodian

## Item 16 Investment Discretion

---

Sky is typically granted discretionary authority to manage securities on behalf of clients. All new client accounts must be approved by the President and the CCO.

Before opening a new account the following documents must be completed and signed:

- A Fully Executed Investment Management Agreement with evidence that the individuals who sign the Investment Management Agreement have authority to do so
- Sky's client information form (KYC) that assesses the investment objectives, risk tolerance, annual income and net worth of its clients
- an investment policy statement designed in consultation with the client to help the client understand what is required and to think realistically of the client's investment needs and objectives

## Item 17 Voting Client Securities

---

The responsibility for voting proxies within client accounts shall be governed by the investment advisory agreement between Sky and the client. For those clients for whom Sky votes proxies, Sky strives to vote proxies in the clients' best economic interest. Sky's policy is to reasonably ensure it will not be influenced by outside sources whose interests conflict with the interest of clients, and to ensure any conflict of interest identified will be resolved in the best interest of the client.

Sky will generally vote with management's recommendations on proxy issues related to business operations matters. As Sky believes management and boards of publicly traded companies have fiduciary and legal duties to act in the best interests of the company, Sky's policy is to generally vote with management's recommendations related to such securities. However, when Sky believes the company's management is acting in an inconsistent manner with its clients' best interests, Sky will vote against management's recommendations. Sky will also generally vote against recommendations it determines will encourage excessive compensation or reduce the rights or shareholders.

Clients who have authorized Sky to vote proxies on their behalf may request a report showing how Sky voted shares in their account(s). A copy of Sky's proxy voting policy will be furnished free upon request.

## Item 18 Financial Information

---

Sky is a profitable entity at today's assets under management and is of sound financial strength