

Appendix A – Investment Policy



Administrative Policy No:	FIN - 01
Policy:	INVESTMENT POLICY
Effective:	August 24, 2020 (NEW)
Revised:	August 13, 2024
Current Legislation:	Municipal Act, 2001 as amended, Ontario Regulation 438/97 and Trustees Act Section 26 and 27.
Applicable to:	Investment Transactions
Policy Owner:	Director of Corporate Services / Treasurer

Policy Statement

The Corporation of the City of Port Colborne (the "City") shall invest public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the City and conforming to legislation governing the investment of public funds.

The purpose of this Investment Policy is to ensure integrity of the investment management process. The objective of this investment policy is to maximize investment income at minimal risk to capital. Accordingly, emphasis on investments is placed on security first, liquidity second and overall yields third.

This investment policy shall govern the investment activities of the City's Operating and Capital cash flow, Reserves and Reserve Funds as well as Trust Funds. This policy applies to all investments made by the City on its own behalf and on behalf of its agencies, boards and commissions and any new funds created by the City.

1) Objectives

The primary objectives of this investment policy, in priority order, are as follows:

a) ***Adherence to statutory requirements;***

All investment activities shall be governed by the *Municipal Act, 2001* as amended. Investments, unless further limited by Council, shall be those eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations. Trust fund investments shall be in accordance with Trustees Act Section 26 and 27

b) ***Preservation of capital***

Meeting this objective requires the adoption of a defensive policy to minimize the risk of incurring a capital loss and of preserving the value of the invested principal. As such, this risk shall be mitigated through the investment strategy which includes requirements to invest in properly rated financial instruments in accordance with applicable legislation, to limit the type of investments to a maximum percentage of the total portfolio and to be mindful of the amount invested within individual institutions.

c) Maintenance of liquidity

The investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing. The portfolio shall be structured to maintain a proportionate ratio of short, medium and long-term maturities to meet the funding requirements of the City. The term liquidity implies a high degree of marketability and a high level of price stability. Important liquidity considerations are a reliable forecast of the timing of the requirement of funds, a contingency to cover the possibility of unplanned requirement of funds and an expectation of reliable secondary marketability prior to maturity.

d) Competitive rate of return

Investment yields shall be sought within the boundaries set by the three foregoing objectives and then consideration shall be given to the following guidance;

- i) Higher yields are best obtained by taking advantage of the interest rate curve of the capital market, which normally yields higher rates of return for longer term investments;
- ii) Yields will also fluctuate by institution as per individual credit ratings (greater risk confirmed by a lower credit rating) and by the type of capital instrument. For example, an instrument of a small trust company would in many cases have a slightly higher yield than a major bank
- iii) A lower credit rating generally makes an investment more difficult to sell on the secondary market and therefore less liquid; and
- iv) Capital instruments that are non-callable will have a lower yield than instruments which are callable, but the call feature does not necessarily compromise marketability.

2) Standards of Care

a) Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived

b) Delegation of Authority and Authorization

The Director of Corporate Services / Treasurer shall have overall responsibility for the prudent investment of the City's investment portfolio. The Director of Corporate Services / Treasurer shall have the authority to implement the investment program and establish procedures consistent with this policy. Such procedures shall include the explicit delegation of the authority needed to complete investment transactions however the Director of Corporate Services / Treasurer shall remain responsible for ensuring that the investments are compliant with regulations and this policy. No person may engage in an investment transaction except as provided under the terms of this policy.

The Director of Corporate Services / Treasurer shall be authorized to enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities in a manner that conforms to the *Municipal Act, 2001 as amended and Trustees Act* and the City's ~~policy manual operating~~

c) Ethics and Conflicts of Interest

Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment policy, or that could impair their ability to make impartial decisions. Staff shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Staff shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

d) Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Municipality. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the municipality.

All security transactions entered into shall be conducted on a delivery against payment basis. Securities may be held by a third party custodian designated by the Director of Corporate Services / Treasurer.

3) **Investment Strategy**

a) Diversification

To minimize credit risk and to maintain liquidity of the investment portfolio, investment diversification shall be guided by the following:

- i) Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
- ii) Limiting investment in securities to those that have higher credit ratings;
- iii) Investing in securities with varying maturities; and
- iv) Investing in securities which have an active secondary market

b) Eligible Investments

The City may invest in certain securities as set out by O. Reg 438/97 to the Municipal Act, as amended from time to time. The Trustee Act governs investment of trust funds. In keeping with the primary objective of the City's investment policy, namely preservation of capital, permissible investments have been restricted to those of high credit quality and reasonable liquidity. The City will diversify the use of investment instruments and financial institutions to ensure security of funds. Eligible investments, diversification and ratings shall be in accordance with Schedule A for direct City. Asset Mix, eligible investments, diversification and benchmark shall be in accordance with Schedule B for Trust Funds.

All City investments must be in Canadian funds, in accordance with O. Reg 438/97. Trust Fund investments can be in any currency.

These portfolio percentage limitations apply at the time an investment is made. City and Trust Fund investments must be calculated independently of each other.

Publications of the relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, the appropriate action to sell the investment within 30 days of the Director of Corporate Services / Treasurer becoming aware of it, must be taken to ensure the City's portfolio remains within the limitations and terms outlined in this policy. In the event the investment is for a non-redeemable fixed term. The related investment will not be renewed once the fixed term has passed.

The portfolio percentage targets for both City and Trust Funds shall apply at the time the investment is made. At specific times the portfolio percentages may deviate from the target for various reasons, for example the timing of maturities. The current guideline is to maintain a range of $\pm 10\%$ from each term target. Prior to any changes to the portfolio based on term targets, the Director of Corporate Services / Treasurer may, at their discretion, retain the investment(s), that contravenes the portfolio targets provided that such action is not contrary to the *Municipal Act, 2001 as amended or the Trustee Act.*

c) Authorized Dealers

~~The City may invest City funds~~ can be invested through the investment arm of a Schedule I banks.

Trust Funds can be invested through a trust fund account established at an investment brokerage of a Schedule I Bank.

d) Investment Term Targets

For the purpose of this policy, a short-term investment is defined as maturing in less than one year, medium-term as maturing between one and five years and long-term as maturing in greater than five years.

In general, the term of an investment will be based on a term strategy, comprising of short and mid-term duration. Longer terms may be considered for funds where the expected use has longer horizons and maximizing investment income is a primary consideration.

The term of the investment will be determined by analyzing the anticipated cash flow requirements of general operating funds, reserves and reserve funds, and trust funds.

e) Buy and Hold

To achieve the primary objectives of this investment policy, internally managed funds shall, for the most part, follow the buy and hold strategy. As noted above, higher yields are best obtained by taking advantage of the interest rate curve of the capital market, which normally yields higher rates of return for longer term investments. By purchasing securities at varying maturity dates and holding the investments to term the interest rate risk is minimized, liquidity is maintained and capital is preserved. To be successful with the buy and hold strategy, matching cash requirements to investment terms is a key element and requires a solid cash flow forecast.

f) Performance Standards

The investment portfolio shall be managed in accordance with parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles proportionate with investment risk constraints and the cash flow needs of the City.

The performances of investments shall be measured using the baseline yield for investments is the interest rate earned by the City on cash held in its bank account.

In developing the cash requirements for the year, sufficient cash shall be available to fund operating and capital expenditures.

If funds are required to support operating or capital expenditures during the year, the best option is to borrow from the Reserve and Reserve Funds rather than obtaining external financing. In order for this to occur, the Reserve and Reserve Funds must have sufficient cash available (i.e. not locked into long-term investments and/or funds not required for the duration of payback term) to support the internal financing through this period. A fair rate of interest shall be applied based on the interest rate which would be paid on the equivalent rate available for external debt servicing.

5) **Reporting**

- a) The Director of Corporate Services / Treasurer shall provide a Tri-annual investment report to Council which includes, at a minimum, the requirements set forth in O. Reg. 438/97. Under the current regulations the investment report shall contain the following:
 - i) A statement on the performance of the ~~municipality's~~ City's investment portfolio during the reporting period;
 - ii) An estimate of the relationship between all of the City's investments in its own long-term and short-term securities and all of its investments, as well as description of any changes, if any, in that estimate since the previous report was prepared;
 - iii) a statement from the Director of Corporate Services / Treasurer as to whether or not all investments are consistent with the City's investment policies and objectives;
 - iv) an indication of the date of each transaction relating to the securities issued by the municipality and each provision of such securities, as well as the purchase price and sale price of each of them;
 - v) any other information required by Council or that should be included in the Director of Corporate Services / Treasurer's opinion.
- b) If an investment is made by the municipality that is not consistent with the investment policies and goals adopted by the municipality, the Director of Corporate Services / Treasurer shall report the inconsistency and corrective action in the Tri-annual investment report to Council.

6) Definitions

Credit Rating Agencies: recognized rating houses, i.e. Dominion Bond Rating Services; Moody's Investor Services; Standard and Poor's Corporation of Canadian Bond Rating Service

Credit Risk: is the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Diversification: a process of investing assets among a range of security types by sector, maturity, and quality rating.

Interest Rate Risk: the risk associated with declines or rises in interest rates that cause an investment in a fixed income security to increase or decrease in value.

Liquidity: a measure of an asset's convertibility to cash.

Market Value: current market price of a security.

Maturity: the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

One Investment Program: a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O..Reg 438/97. The program consists of Money Market Funds, Bond Funds and Equity Funds. The ONE Fund is operated by LAS (Local Authority Services Ltd., a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario).

Ratings: defines how a credit agency rates the ability of an insurer to make timely and full payment of its obligations to policyholder claims and benefits, as well as financial contract guarantees and benefit obligations

Schedule I Banks: domestic banks that are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Banks: are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

SCHEDULE A – City Funds – Eligible Investments, Diversification and Ratings

Sector		Minimum DBRS ⁽¹⁾ Credit Rating		Maximum Portfolio Share	Institutional Limit
		Short-term	Long-term		
Federal	Government of Canada & Federal Guarantees	n/a	n/a	100%	100%
Provincial	Provincial Governments & Provincial Guarantees	R-1 mid	AA (low)	100%	25%
	Municipal Finance Authority of BC		AA (low)	20%	20%
Municipal & Boards	Municipalities		AA (low)	50%	15%
	School board or similar		AA (low)	5%	5%
Banks	Schedule I Banks	R-1 mid	AA (low)	100%	50%
	Schedule II Banks	R-1 mid	AA (low)	50%	15%
Other Financial	Loan or Trust Companies	R-1 mid	AA (low)	50%	15%
	Credit Union to which the <i>Credit Union and Caisses Populaires Act, 1994</i> applies ²	n/a	n/a	Insured Limit	Insured Limit
Joint Municipal Investment Pools – One Investment Program Money Market/High Interest Savings				50%	
Joint Municipal Investment Pools-One Investment Program Bonds				25%	
Joint Municipal Investment Pools – One Investment Program Equity				5%	
TOTAL JOINT INVESTMENT ONE FUNDS				50%	

1 - Recognized Credit Rating Houses- Category Ratings shows as used by Dominion Bond Rating Services (DBRS). Equivalent ratings acceptable through Moody's Investor Services, Standard and Poor's Corporation or Fitch Ratings. Ratings' Description are below.

2 - Must also meet all criteria under O. Reg 438/97

Rating's Description

Commercial Paper and Short-Term Debt		Bond and Long-Term Debt	
Symbol	Credit Quality	Symbol	Credit Quality
R-1 (high)	Highest	AAA	Highest
R-1 (middle)	Superior	AAA	Superior
R-1 (low)	Satisfactory	A	Satisfactory
R-2 (high)	Adequate	BBB	Adequate
R-2 (middle)	Adequate	BB	Speculative
R-2 (low)	Adequate	B	Highly Speculative
R-3 (high)	Speculative	CCC	Very Highly Speculative
R-3 (middle)	Speculative	CC	Very Highly Speculative
R-3 (low)	Speculative	C	Very Highly Speculative
D	In Arrears	D	In Arrears
NR	Not Rated		

SCHEDULE B – Trust Funds – Asset Mix, Eligible Investments Diversification and Benchmarks

<u>Asset Mix</u>	<u>Eligible Investments</u>	<u>Target</u>		<u>Benchmark</u>
		<u>Minimum</u>	<u>Maximum</u>	
<u>Cash</u>	<u>Cash and High Interest Savings Accounts</u>	<u>0%</u>	<u>15%</u>	<u>FTSE TMX 91-Day T-Bill Index</u>
<u>Fixed Income</u>	<u>Multi-Asset Credit</u>	<u>25%</u>	<u>55%</u>	<u>FTSE TMX Universe Bond Index</u>
<u>Canadian Equities</u>	<u>Equities (listed on a major recognized public exchange)</u>	<u>0%</u>	<u>45%</u>	<u>S&P/TSX Composite</u>
<u>Global Equities</u>		<u>20%</u>	<u>70%</u>	<u>MSCI World Index</u>

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