

An investment policy must be developed and adopted prior to investment in the prescribed securities as per Ontario Regulation 438/97, Section 7.

The council of the municipality must consider a number of investment issues when developing their policy:

- Investment risk tolerance
- Preservation of municipal capital
- Risk aversion through portfolio diversification
- Seeking legal and/or financial advice with respect to the proposed investments.

Unique rules are set out concerning investments in:

- CHUMS Financing and Local Authority Services:
- The treasurer is required to make a statement as to whether in his/her opinion the investment guidelines used by the CHUMS/LAS One Investment Program meet the municipality's policies and goals.

In accordance with Section 8 of the regulation, the treasurer is required to prepare an investment report. The report is to be delivered to Council annually or more often as directed by Council. The statement shall contain:

- Statement of portfolio performance through the reporting period
- Estimated ratio of investments in the municipality's own securities compared to the municipality's total investment portfolio. A description of any changes to that ratio since the last report is also to be included.
- A Treasurer's statement with respect to adherence to the municipality's investment policy.
- A transaction listing of any changes to investment in its own securities, including purchase and or sale price.

The following section includes excerpts from various North American professional associations and Ontario municipal investment policies. In developing an investment policy for your municipality you are encouraged to utilize as is or adapt sections to your suiting. The idea is to choose one example from each of the numbered sections.

### **Building Your Investment Policy Statement:**

#### **1. Policy or Policy Statement**

- a) A policy to govern the management of the Corporation's surplus funds and investment portfolio.
- b) The Municipality of \_\_\_\_\_ strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.
- c) It is the policy of the Municipality of \_\_\_\_\_ to invest municipal funds in a manner, which will provide the highest return with the maximum security while meeting the daily cash flow demands of the municipality and conforming to all applicable law.

**2. Scope**

- a) The policy as outlined applies to all future investment of Revenue, Reserve, Trust and Sinking Funds of the City.
- b) The policy includes all funds that are the responsibility of the municipality.
- c) This investment policy applies to all investments made on behalf of the City and its agencies, boards and commissions including, but not limited to, operating funds, reserves, reserve funds, sinking funds, pension funds, trust funds and any new fund created by the City unless specifically exempted.

**3. Objectives**

- a) Priorities for the investing of funds are as follows:
  - 1. Legality of investments;
  - 2. Preservation of principal;
  - 3. Maintenance of liquidity; and
  - 4. Competitive rate of return.
- b) The primary objectives in order of priority shall be:
  - Legality – conformance with legal requirements
  - Safety – preservation of capital and protection of investment principal
  - Liquidity – maintenance of sufficient liquidity to meet operating requirements
  - Yield – attainment of market rates of return
- c) The primary objectives of the Investment Program, in priority order, shall be:
  - Adherence to statutory requirements;
  - Preservation of capital;
  - Maintaining liquidity; and
  - Earning a competitive rate of return.

**4. Standards of Care**

***Prudence***

- a) 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.

Investment officers acting in accordance with written procedure and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this Policy.

- b) 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.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy.

### ***Ethics and Conflict of Interest***

- a) Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials 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. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Municipality.
- b) Investment officers shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make important investment decisions. Investment officers shall disclose to the Treasurer of the City any material financial interests in financial institutions that conduct business within Canada, and they shall further disclose any significant personal financial or investment positions that could be related to the performance of the portfolios.

### ***Delegation of Authority***

- a) The Commissioner of Finance and Treasurer has overall responsibility for the prudent investment of the Region’s portfolio. However, the Director of Policy, Risk and Treasury is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy. The Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff.
- b) The Treasurer of the City shall establish written procedures and policies for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures and policies established by the Municipal Treasurer.

## **5. Safekeeping and Custody**

- a) 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.

The depository shall issue a safekeeping receipt to the municipality listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports, which list all securities held by the municipality, the book value of holdings and the market value as of month-end.

b) 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 Treasurer of the Municipality and evidenced by safekeeping receipts. The Treasurer of the Municipality may enter into a securities lending arrangement with the custodian.

**6. Internal Controls**

a) The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

b) The Treasurer of the municipality shall establish an annual process of independent review by the municipality's auditor. This review will provide assurance of compliance with governing legislation, this investment policy and procedures established by the Treasurer.

c) (The Treasurer or delegate shall), develop and maintain all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments are properly managed and adequately protected.

**7. Suitable and Authorized Investments**

a) The Municipality may invest in certain securities as set out by Ontario Regulation 438/97 to the Municipal Act, as amended from time to time. A copy of this regulation, which prescribes the securities in which a municipality may invest, is attached to this policy. The Trustee Act regulates investment of trust funds. However, in keeping with the primary objective of the Municipality's investment policy, namely the preservation of capital, permissible investments have been restricted to those of high credit quality and reasonable liquidity. Consequently, investment officers are permitted to invest only in fixed income instruments of the following issuers:

b) The portfolio aims for both diversification and near risk-free investments to ensure security of the capital. Emphasis is placed on securities offered by or unconditionally guaranteed by the Government of Canada, a Province of Canada or the six major chartered banks (Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia, Toronto Dominion Bank, and National Bank of Canada).

All investments must meet the criteria outlined below regarding investment quality, size limitations and term of investments.

**8. Diversification**

a) Investments will be diversified by issuer and by the sector of the economy to which they belong. The Treasurer may establish maximum amounts and maximum percentages of the portfolio for each issuer and sector from time to time. Investment in a municipal investment pool as allowed by Ontario Regulation 38/97, such as the One Investment Program should be considered an appropriate method of investment diversification.

b) The municipality shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds. Diversification can be by type of investment, number of institutions invested in and length of maturity. Investment in a municipal investment pool as allowed by

Ontario Regulation 38/97, such as the One Investment Program should be considered an appropriate method of investment diversification.

**9. Maximum Maturity**

a) To the extent possible, the municipality shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the municipality will not directly in securities maturing more than \_\_\_\_ years from the date of purchase.

Reserve funds may be invested in securities exceeding \_\_\_\_ years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

b) Where appropriate the duration of a portfolio's investments will usually match the expected duration of the portfolio's liabilities. The Treasurer may deviate from this course of action if there is a reasonable basis to do so.

c) To the extent possible, the municipality shall match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the municipality will not directly invest in securities maturing more than ten (10) years from the date of purchase. Reserve funds and other funds with longer investment horizons may be invested in securities exceeding ten (10) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.

**10. Performance Standards**

a) The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. (Municipal Treasurers' of the United States and Canada)

b) The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio. (Municipality will insert their benchmark, i.e. 90 day T-bill)

c) The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the Municipality. Short-term funds will be compared to the return on the three month Government of Canada Treasury Bills and the One Investment Program's Money Market Portfolio. Long-term funds will be compared to Scotia McLeod's All Government Short Term Bond Index and the One Bond Portfolio.

d) i) Operating Funds, Reserves and Reserve Funds:

The Municipality's investment strategy is an active strategy and the basis used by the Treasurer to determine whether market yields are being achieved shall be appropriate debt market indices as published by leading Canadian investment firms.

Accordingly, the investment portfolio will be designed to obtain, at a minimum, market rates of return taking into account the Municipality's investment risk tolerance, constraints and cash flow needs.

ii) Sinking Funds

The sinking funds investment strategy is fundamentally a passive buy and hold strategy with respect to assets required to meet actuarial rates of return, with surplus, if any, being available for active management. Given this strategy, the basis used by the Sinking Fund Committee to determine whether the actuarial rates of return are being achieved shall be the accounting rates of return using the constant yield method of amortization.

The investment portfolio shall be designed to obtain as a minimum, the actuarial rate of return specified in the sinking fund by-laws of the underlying Sinking Fund Debentures during economic cycles, taking into account the sinking fund's cash flow needs.

**11. Reporting**

a) The Treasurer shall prepare an investment report at least monthly. The report should be provided to the Board of Trustees and available on request. The report should be in a format suitable for review by the general public. An annual report should also be provided to the Board.

b) The Treasurer shall provide quarterly reports that provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment in the portfolio structure going forward and thoughts on investment strategies.

Schedules in the quarterly report should include the following:

A listing of individual securities held at the end of the reporting period by authorized investment category

- Average life and final maturity of all investments listed
- Coupon, discount or earnings rate
- Par value, amortized book value and market value
- Percentage of portfolio represented by each investment category

c) The Treasurer of the Municipality, in accordance with legislative requirements, will submit to Council an annual report on investment activity and returns.

d) The Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements)
- Average weighted yield to maturity on investments as compared to applicable benchmarks
- Listing of investment by maturity
- Percentage of total portfolio which each type of investment represents
- A statement about the performance of the investment portfolio during the period covered by the report

- An estimated ratio of the long-term and short-term securities compared to the total investments and a description of the change, if any, in that proportion since the previous year's report
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made with the investment policies and goals adopted by the Municipality.
- A record of the date each transaction in or disposal of its securities, including a statement of the purchase and sale price of each security, and
- Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

### **Glossary of Terms:**

**Asset Backed Securities:** fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

**CHUMS Financing Corporation:** one of the entities that operates The One Investment Program, a co-mingled investment strategy in which local governments and the broader Ontario public sector can invest.

**Credit Risk:** 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.

**Duration:** a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**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.

**Investment-grade Obligations:** an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

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

**Local Authorities Services (LAS):** one of the entities that operates The One Investment Program, a co-mingled investment strategy in which local governments and the broader Ontario public sector can invest.

**Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.

**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. See “Weighted Average Maturity”.

**Prudent Person Rule:** an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

**Qualifying Assets:** financial assets, either fixed or revolving, that by their terms converts into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

**Safekeeping:** holding of assets (e.g., securities) by a financial institution.

**Sinking Fund:** money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**Special Purpose Entity:** a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

**Weighted Average Maturity (WAM):** the average maturity of all the securities that comprise a portfolio.