


POLICY

	Policy:	Investment		
	Department:	Corporate Services		
	Division:	Financial Services	By-Law No.:	N/A
	Administered By:	Treasurer	Approval Date:	DRAFT
	Replaces:	Investment – February 1, 2016		
	Attachment(s):	Appendix A – Operating Funds Investment Portfolio Appendix B – Reserve/Trust Funds Investment Portfolio Appendix C – DBRS Morningstar Credit Rating and Ranking Scale Appendix D – Portfolio Term Limitations		

1. POLICY STATEMENT

The Corporation of the Town of Amherstburg is committed to accountability and transparency when investing public funds by investing in a manner that maximizes returns, minimizes investment risk and conforms to the legislative requirements outlined in the Municipal Act, 2001

2. PURPOSE

- 2.1. This policy provides guidance for the investment decisions of the Town when funds are not immediately required or are in surplus position to the day-to-day operating requirements.
- 2.2. This policy ensures compliance with statutory requirements such that all investment activities shall be governed by the Municipal Act, 2001 and unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

3. SCOPE

- 3.1. This policy applies all Town of Amherstburg investment activities including, but not limited to, the Town's general funds, reserve funds, and the restricted cash fund.

This policy applies to all investments made by the Town on its own behalf, and on behalf of its agencies, boards, commissions, and wholly owned subsidiaries.

- 3.2. Canadian and US dollar investments are authorized for the purpose of this policy.
- 3.3. This policy shall be reviewed every five (5) years from the date it becomes effective, and/or sooner at the discretion of the CAO or designate.

4. DEFINITIONS

- 4.1. **Basis Point (BPS)** is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Commonly used for calculating interest rates, equity indexes, and the yield of a fixed-income security.
- 4.2. **Discount** is the amount by which the par value of a security exceeds the price paid for the security.

- 4.3. **Diversification** is a process of investing assets among a range of security types by class, sector, maturity, and quality rating.
- 4.4. **Duration** is a measure of the timing of cash flows, such as interest payments and principal payments, to be received from a given fixed-income security. This is calculated 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.
- 4.5. **Holding Period Classification** of investments are based on the intended period the Town would hold the asset as follows:
- 4.5.1. **Cash Equivalent** are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
- 4.5.2. **Short-term** securities have a holding period of two years or less.
- 4.5.3. **Long-term** securities have a holding period of greater than two years.
- 4.6. **Interest Rate Risk** is the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to decrease or increase in value.
- 4.7. **Liquidity** is a measure of an asset's convertibility to cash. Implies a high degree of marketability and a high level of price stability.
- 4.8. **Market Risk** is the risk that the value of a security will rise or decline as a result of changes in market conditions.
- 4.9. **Schedule III Banks** are foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.
- 4.10. **Yield to Maturity (YTM)** is the annual return on a bond held to maturity when interest payments and price appreciation (if priced below par) or depreciation (if priced above par) are considered.
- 4.11. **Workout Plan** is a formal strategy, including expected timelines, for the sale of securities held by municipalities which are not permitted as eligible investments under the Regulation and require divestment. Ineligible securities can be acquired because of donations, gifts, or security downgrades.

Common definitions, acronyms, and terms are available in the Glossary located on the Town's Policies webpage.

5. **INTERPRETATIONS**

Any reference in this policy to any statute or any section of a statute shall, unless expressly stated, be deemed to be reference to the statute as amended, restated or re-enacted from time to time. Any references to a by-law or Town policy shall be deemed to be a reference to the most recent passed policy or by-law and any replacements thereto.

6. GENERAL CONDITIONS

6.1. Financial Stewardship

- 6.1.1. The Town will exercise care, conservancy, planning, attention, upkeep, and management of its financial resources.

6.2. Preservation of Capital

- 6.2.1. The Town will invest in a manner that minimizes the risk of incurring a capital loss and preserves the value of the invested principal by:

- 6.2.2.

- 6.2.2.1. Investing in operating funds primarily in shorter-term securities or investment pools; and

- 6.2.2.2. Diversifying long-term holdings to mitigate the effects of interest rate volatility

- 6.2.3. All investments should have a minimum rating with the limitations set out in Appendix A for Operating Funds and Appendix B for Reserve and Trust Funds.

- 6.2.4. Publications of relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed by the Treasurer with the appropriate action taken to ensure the Town's investment portfolio remains with the limitations and terms outlined in this policy (See Appendix C).

6.3. Maintenance of Liquidity

- 6.3.1. The Town will invest in mainly liquid, marketable securities which have an active secondary market to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- 6.3.2. The Town may utilize temporary borrowing for short-term liquidity needs provided it helps maximize the overall return for the portfolio.

- 6.3.3. The investment portfolio will be comprised of:

- 6.3.3.1. Excess Operating cash flow balances;

- 6.3.3.2. Excess Capital cash flow balances;

- 6.3.3.3. Reserve funds; and

- 6.3.3.4. Restricted cash funds.

6.4. Risk Management

- 6.4.1. The Town will manage risk by ensuring there is sufficient diversification among the assets in the portfolios by applying additional limitations for the maximum allowable exposure for each classification of security as a percentage of the total portfolio.

- 6.4.2. The maximum allowable exposure for each specific issuer in a security class for the Operating Funds and the Reserve/Trust Funds are outlined in Appendix A and Appendix B, respectively.

6.5. **Investment Returns**

- 6.5.1. The rate of return on the investment portfolios will be optimized to the extent possible given the investment objectives, safety of principal, and the need to maintain adequate liquidity.

- 6.5.1.1. Return on investment is of secondary importance compared to the safety and liquidity of principal.

- 6.5.2. For the purposes of evaluating the performance of the Town's investment portfolios, all rates of return will be compared to performance expectations.

6.6. **Approval Requirements**

- 6.6.1. All investment transactions must be approved by two of the following:

- 6.6.1.1. Treasurer
 - 6.6.1.2. Deputy Treasurer
 - 6.6.1.3. CAO

6.7. **Competitive Rate of Return**

- 6.7.1. Investment yields can only be sought through:

- 6.7.1.1. Financial Stewardship;
 - 6.7.1.2. Preservation of capital;
 - 6.7.1.3. Maintenance of liquidity; and
 - 6.7.1.4. Competitive rate of return

6.8. **Eligible Investments and Limitations**

- 6.8.1. A summary of the maximum allowable exposure for each classification of security as a percentage of the total portfolio, as well as the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio, is set out in Appendix A.

6.9. **Investment Strategy**

- 6.9.1. Cash flow will be managed on an ongoing basis and will include all investment, borrowing, operations, and capital activity affecting the cash balance of the Town.
- 6.9.2. Whenever possible, the Town will attempt to match its investments with anticipated cash flow requirements to maximize the advantage of longer investment terms, while preserving sufficient cash flow.

6.10. Investment Income

- 6.10.1. For investment purposes, funds are to include money that is held in a general fund, a capital fund, a reserve fund, and restricted cash balances. The allocation of net earnings from combined investments shall be credited to each separate fund on proportion to the amount invested from it less 1.5% which will be allocated to the Operating Fund.

6.11. Investment Reporting

- 6.12. The Treasurer shall provide Council with an annual investment report that shall contain:

- 6.12.1. A statement about the performance of the portfolio of investments of the Town during the period covered by the report; and
- 6.12.2. A description of the estimated proportion of the total investments of the Town that are invested in its own long-term and short-term securities to the total investment of the Town, and a description of the change, if any, in that estimated proportion since the previous year's report.

6.13. Performance Standards

- 6.13.1. The investment portfolio will be managed in accordance with the criteria set out within this policy and relevant legislation.

6.14. Investment Transaction, Accounts, and Safekeeping

- 6.14.1. The Treasurer, together with the Deputy 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, and to perform other related acts in the day-to-day operation of the investment program for all investment transactions on behalf of the Town.
- 6.14.2. The Designated Signing Authorities shall be authorized to sign the necessary documentation associated with maintaining approved investment accounts, subject to approval in financial content by the Treasurer.

6.15. Prudence

- 6.15.1. Investments shall be made with judgement 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.

6.16. Consequences of Non-Compliance

- 6.16.1. Should the Director of Corporate Services/Chief Financial Officer find that investments were not made in compliance with this policy, they shall report the inconsistency to Council within 30 days after becoming aware of it.

- 6.16.2. If at any time a security and/or allocation, with the portfolio(s), in the Director of Corporate Services/Chief Financial Officers opinion, is not in adherence with the Town's Investment policy and/or the Municipal Act, 2001 Regulation 438/97, Eligible Investments, then the Town will create a workout plan, including expected disposal timelines, for selling the investment and shall sell the investment in accordance with the plan.

6.17. **Ethics and Conflicts of Interest**

- 6.17.1. 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.
- 6.17.2. 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.
- 6.17.3. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Town.
- 6.17.4. Conflicts shall be disclosed immediately to the employee's direct supervisor who in turn shall notify the Treasurer. Any conflicts noted by the Treasurer as to his/her personal business activity shall be disclosed to the Chief Administrative Officer.

7. **RESPONSIBILITIES**

- 7.1. **Council** has the authority and responsibility to:
 - 7.1.1. Adopt the Investment Policy
- 7.2. The **CAO** has the authority and responsibility to:
 - 7.2.1. Maintain compliance with the Municipal Act, Ontario Regulation 438/97, the Investment Policy and any other provincial investment regulations;
 - 7.2.2. Authorize investment transactions on behalf of the Town.
- 7.3. The **Treasurer** has the authority and responsibility to:
 - 7.3.1. Provide Council with an annual investment report, or more frequently as directed by Council.
 - 7.3.2. Enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities on behalf of the Town and in accordance with the Municipal Act, 2001.
 - 7.3.3. Ensure that any investment that is not consistent with the Investment Policy will be disposed of within prescribed timelines.
 - 7.3.4. Ensure that credit ratings of securities held in the investment portfolio are being monitored regularly and that any negative changes are communicated in a timely manner, as deemed appropriate.
 - 7.3.5. Ensure that all reporting requirements identified within the Investment Policy are met.

- 7.4. The **Deputy Treasurer** has the authority and responsibility to:
 - 7.4.1. Develop and maintain all necessary operating procedures for the effective control and management of the investment function, and reasonable assurance that the Town's investments are properly managed and adequately protected.
 - 7.4.2. In the absence of the Treasurer, the Deputy Treasurer shall assume the roles and responsibilities of the Treasurer.

8. **LEGISLATIVE REFERENCES**

- 8.1. Bank Act 1991
- 8.2. Municipal Act, 2001
- 8.3. Ontario Regulation 438/97

APPENDIX A – OPERATING FUNDS INVESTMENT PROFILE

Security or Institution	Minimum Credit Rating	Maximum % of Portfolio	Issuer % Limit	Maximum Term of Maturity
Government of Canada Debt ¹	N/A	100%	N/A	2 Years
Provincial Government Debt ²	A (low)	75%	25%	2 Years
Canadian Municipal Debt ³	A (low)	30%	10%	2 Years
Other Country Debt	AAA	10%	5%	2 Years
Supranational Debt	AAA	10%	5%	2 Years
Canadian Corporate Debt ⁴	A (low)	25%	10%	2 Years
Schedule I Banks ^{5,6}	AA (low) or R-1 (low)	100%	35%	2 Years
Schedule II Banks ^{5,6}	AA (low) or R-1 (mid)	10%	5%	2 Years
Schedule III Banks ^{5,6}	AA (low) or R-1 (mid)	5%	2%	2 Years
Loan or Trust Corporations ^{5,6}	AA (low) or R-1 (mid)	10%	5%	2 Years
Credit Unions ^{5,7}	N/A	10%	5%	2 Years
ONE Investment High Interest Savings Account	N/A	10%	10%	N/A
ONE Investment "Other" ⁸	N/A	10%	5%	N/A

Notes:

1. Includes Federal agencies.
2. Includes Provincial agencies (i.e. Infrastructure Ontario).
3. Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation Authorities.
4. Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.
5. Applies to Debt or Deposit securities, subject to the requirements of the Regulation.
6. Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).
7. Where total Deposit securities exceed \$250,000, additional Deposit securities maturing beyond 2 years must satisfy the financial indicators prescribed in Ontario Regulation 438/97. All Debt securities must satisfy the final indicators prescribed in Ontario Regulation 438/97.
8. ONE Investment "Other" includes the Canadian Government Bond, Canadian Corporate Bond & Money Market portfolios or any other new investment products developed and offered by ONE Investment.

APPENDIX B – RESERVE/TRUST FUNDS INVESTMENT PORTFOLIO

Security or Institution	Minimum Credit Rating	Maximum % of Portfolio	Issuer % Limit	Maximum Term of Maturity
Government of Canada Debt ¹	N/A	100%	N/A	20 Years
Provincial Government Debt ²	A (low)	75%	25%	20 Years
Canadian Municipal Debt ³	A (low)	30%	10%	20 Years
Other Country Debt	AAA	10%	5%	20 Years
Supranational Debt	AAA	10%	5%	20 Years
Canadian Corporate Debt ⁴	A (low)	25%	10%	5 Years
Schedule I Banks ^{5,6}	A (low)	80%	35%	10 Years
Schedule II Banks ^{5,6}	A (low)	10%	5%	10 Years
Schedule III Banks ^{5,6}	A (low)	5%	2%	10 Years
Loan or Trust Corporations ^{5,6}	A (low)	10%	5%	10 Years
Credit Unions ^{5,7}	N/A	10%	5%	10 Years
ONE Investment High Interest Savings Account	N/A	10%	10%	N/A
ONE Investment Canadian Equity Portfolio	N/A	10%	10%	N/A
ONE Investment "Other" ⁸	N/A	10%	5%	N/A

Notes:

1. Includes Federal agencies.
2. Includes Provincial agencies (i.e. Infrastructure Ontario).
3. Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation Authorities.
4. Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.
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APPENDIX C – DBRS MORNINGSTAR CREDIT RATING AND RANKING SCALES

Long-Term Obligations Scale	
Rating	Credit Quality
AAA	Highest
AA	Superior
A	Good
BBB	Adequate
BB	Speculative
B	Highly Speculative
CCC/CC/C	Very Highly Speculative
D	Default
R-1 (high)	Highest
R-1 (middle)	Superior
R-1 (low)	Good
R-2 (high)	Upper End of Adequate
R-2 (middle)	Adequate
R-2 (low)	Lower End of Adequate
R-3	Lowest End of Adequate
R-4	Speculative
R-5	Highly Speculative
D	Default

APPENDIX D – PORTFOLIO TERM LIMITATIONS

Term Limitation	Range of Investment
Less than 90 days	20% to 100%
Less than 1 year	30% to 100%
From 1 year up to, but not including 5 years	0 to 85%
From 5 years up to, but not including 10 years	0% to 50%
From 10 years up to 20 years	0% to 30%

Other Restrictions: Term is limited to an individual maximum of 20 years and a weighted average term of 5 years for the whole portfolio.