

STAFF REPORT: Finance & IT Services

C.5



REPORT TO: Finance & Administration
MEETING DATE: September 11, 2012
REPORT NO.: FIT.12.54
SUBJECT: Investment Policy Update
PREPARED BY: Robert Cummings, CMA,
Director of Finance & IT
Services
Darcy Chapman, Capital
Accountant

A. Recommendations

THAT Council receive Staff Report FIT.12.54 "Investment Policy Update"; and,
THAT Council adopt Investment Policy, FS.08.11 as amended.

B. Background

The Town invests surplus funds in a number of high grade quality fixed income investments within the prescribed guidelines of the *Municipal Act, 2001*, s 418. The Town's current investment policy, FS.08.11, sets out practises and procedures for Town staff with regard to the investment of public funds. The Act and the policy work together to ensure the Town's internal control systems are sufficient to meet the level of risk associated with the investment of public funds.

As with any policy, regular review is necessary. Upon completing the annual review, staff determined that modifications were required to the policy. The revisions were deemed necessary due to organizational changes in Finance & IT Services. As well, staff determined that the 2008 policy did not provide the flexibility to allow for investments in the ONE Funds program administered by AMO and MFOA.

The new policy as attached refines and strengthens certain processes, specifically includes provisions for investing in ONE Funds and reflects the current administrative reporting structure.

C. The Blue Mountains' Strategic Plan

Providing a strong, well managed municipal government.

D. Environmental Impacts

N/A

E. Financial Impact

Assist in future budgets by optimizing use of available funds.

F. In Consultation With

G. Attached

1. Investment Policy FS.08.11 - Revised

Respectfully submitted,

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TOWN OF THE BLUE MOUNTAINS

POLICY & PROCEDURES

Subject Title: Investment Policy

Corporate Policy (Approved by Council)

Policy Ref. No.: FS 08.11

Administrative Policy (Approved by CAO)

By-law No.:

Department Policy: (Approved by Mgr.)

Name of Dept.: Finance & IT Services

Date Approved: October 6, 2008

Staff Report: FS.08.47

Date Revised: September 17, 2012

Staff Report: FIT.12.54

Policy Statement

This policy will establish and maintain practices and procedures with regard to investment of public funds.

Purpose

The purpose of this Investment Policy shall be to invest all available funds in a prudent manner so as to maximize the rate of return while minimizing the degree of risk to the principal and ensuring an adequate level of liquidity within the legislated guidelines.

Application

This policy will govern the investment of surplus cash, reserves and reserve funds and trust funds of the Town of The Blue Mountains.

Definitions

Asset-Backed Commercial Paper (Bank Sponsored Only): a short-term promissory note issued by corporations, with maturities ranging from 2 to 365 days.

Basis Point: a unit of measurement used in the valuation of fixed-income securities equal to 1/100th of 1 percent of yield, e.g. "1/4" of 1 percent is equal to 25 basis points.

Credit Quality: a measurement of the financial strength of a bond issuer. This helps an investor to understand an issuer's ability to make timely interest payments and repay

the loan principal upon maturity. Higher credit quality results in lower interest rates as the risk of default is lower. Credit quality ratings are provided by nationally recognized agencies such as Moody's and Dominion Bond Rating Service (DBRS).

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

Designate: a person authorized by the Director to act on his/her behalf, for purposes of this policy.

Director: the Director of Finance & IT Services and for the purposes of this policy, the Treasurer.

Discount: the amount by which the par value of a security exceeds the price paid for the security.

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

Fair value: the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale.

Investment Policy: a concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity: the ease with which one can convert securities/assets to cash

Local Government Investment Pool (LGIP): an investment by local government in which their money is pooled as a method for managing local funds, e.g., the "One Fund".

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

Market Value: the current market price of a security.

Maturity: the date on which payment of a financial obligation is due.

Par: the face value or principal value of a bond, typically \$1,000 per bond.

Premium: the amount by which the price paid for a security exceeds the security's par value.

Principal: the face or par value of a debt instrument or the amount of capital invested in a given security.

Schedule I Bank: a chartered bank operating under the *Bank Act*. The voting shares must be widely held with no investor holding more than 10% and foreign ownership limited to 25%.

Schedule II Bank: a chartered bank operating under the *Bank Act* that may be wholly owned by non-residents.

Serial Bond: a bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Town: The Corporation of the Town of The Blue Mountains.

Yield: the current rate of return on an investment security generally expressed as a percentage of the security's current price.

Procedures

I. GENERAL OBJECTIVES

The primary objectives of investment activities shall be adherence to statutory requirements, safety of principal, liquidity, and maximize rate of return.

a. Adherence to Statutory Requirements

Legislative authority for the investment guidelines of municipal funds is provided in Section 418 of the *Municipal Act 2001*.

b. Ensure Safety of Principal

Selection of highly rated investments conforming to the restrictions of the Legislative authority, forces the adoption of a defensive policy to minimize the risk of loss and the preservation of the value of the principal. The Town will:

- Structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Invest operating funds primarily in shorter-term securities or approved investment pools
- Diversify the investment portfolio so that risk of potential losses on individual securities will be minimized

c. Maintain Adequate Liquidity

Liquidity is reliant upon an accurate forecast of the timing of the needs for funds and to cover the possibility of unplanned needs for funds. This along with legislative restrictions, help determine the amounts and types of investments required to have a high degree of liquidity. Liquidity will be achieved where possible by structuring the portfolio so that securities mature concurrent with anticipated cash demands.

d. Maximize Rate of Return

While conforming to all of the above objectives, this objective is to realize a competitive rate of return on invested funds. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the assumed risk.

II. STANDARD OF CARE

a. Ethics and Conflicts of Interest

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. Material interests in financial institutions with which they conduct business shall be disclosed. Further, any personal financial/investment positions that could be related to the performance of the investment portfolio shall be disclosed.

b. Delegation of Authority

All investments for the Town are to be authorized by the Director of Finance & IT Services (the Director). The authority to manage and implement the investment program is granted to the Manager of Revenue, or in their absence, the Manager of Purchasing, hereinafter referred to as designate, who shall act in accordance with established procedures and internal controls consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy.

c. Investment Placement:

Investments are selected after consultation and upon advice from the investment dealers and banks which have been approved by the Town.

Each investment dealer and bank is requested to provide current rates of interest on the various types of qualified investments. Upon receipt of the investment rates, the type of investment and term of investment will be approved by the Director.

Investment dealers and banks approved by the municipality may change from time to time upon the discretion of the municipality, provided they meet with legislative requirements.

d. Investment Reporting:

On a monthly basis, a year-to date investment register is to be prepared, for review by the Director.

e. Combining Investments:

This policy allows the Town to combine and invest money held in the general fund, capital fund, reserve fund and trust fund.

This policy also allows the Town to enter into agreements with other municipalities for the joint investment of money.

III. SAFEKEEPING AND CUSTODY

All investments shall be held for safekeeping in the name of the Town by approved institutions (Appendix A). The depository shall issue a safekeeping receipt to the Town for each investment transaction that lists all pertinent information. The depository shall also provide monthly reports for each account, indicating all investment activity, book value of the holdings, market value as of month-end, and income earned by the investments.

IV. INVESTMENT PARAMETERS

a. Diversification

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding Government of Canada securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities, and;
- Investing in mainly liquid, marketable securities that have an active secondary market to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Note that portfolio percentage restrictions apply at the time an investment is made. The “Approved Types of Investments” chart included in Appendix B outlines the maximum percentages allowable. At specific times, the portfolio limitations may be exceeded as a result of the timing of maturities.

b. Maximum Maturities

To the extent possible, the Town shall attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five (5) years from date of purchase unless the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

V. REPORTING

a. Method

The Director shall provide an investment report to Council annually or as requested by Council. The annual investment report should include the following:

- A listing of individual securities held at the end of the reporting period by maturity date;
- Investment term in days and interest rate;
- 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;
- Average weighted yield to maturity of portfolio on investments as compared to policy benchmark
- A record of the date of each security transaction, including a statement of the purchase and sale price of each security;
- Percentage of the total portfolio which each type of investment represents;

- A statement about the performance of the investment portfolio during the period;
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report;
- A statement by the Director as to whether or not, in his or her opinion, all investments were made in accordance with the investment policy;
- Such other information that the Committee may require or that, in the opinion of the Director, should be included.

b. Performance Measures

The investment portfolio will be managed in accordance with the parameters specified within this policy. Market yields should be higher than the rate given by the Town's bank for the various bank accounts. This rate will be used as the annual benchmark in measuring investment objectives.

c. Market Value

The market value of the portfolio shall be calculated at least annually.

VI. SECURITIES FOR SUBDIVISION AND DEVELOPMENT SERVICING

This policy addresses securities required for subdivision and development servicing (i.e. "Letters of Credit") and has been designed to provide adequate protection to the Town of The Blue Mountains and to be fair and reasonable to developers and other interested parties. The objective is to ensure that monies that guarantee the installation of services will be available to the Town when required. The Town will only accept approved securities in the prescribed letter of credit form issued by Schedule I banks, Schedule II banks, loan or trust corporations with a minimum Moody's rating of [Prime – 1] or DBRS rating of [R-1 middle or better] or issued by credit unions. (When a policy on Letters of Credit for securities for subdivision and development servicing is established, this section shall be removed from this policy.)

VII. GENERAL

a. Signing Authority

Investments made by the Town are settled by cheque requisition or electronically by wire and is authorized by the Designate and approved by the Director of Finance & IT Services.

Exclusions

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

References and Related Policies

Bank Act, 1991 (Canada)
Trust and Loan Companies Act, 1991 (Canada)

Credit Unions and Caisses Populaires Act, 1994
Conservation Authorities Act, 1990
Trustee Act, 1990

Consequences of Non-Compliance

Consequences shall be commensurate with the severity of the breach of this policy.

Review Cycle

This policy shall be reviewed on a regular basis. Amendments may be made at any time at the recommendation of the Director. The appropriate authority must approve any policy changes.

APPENDIX A - APPROVED INVESTMENT ISSUERS

Schedule I – Banks

Bank of Montreal

The Bank of Nova Scotia

Canadian Imperial Bank of Commerce

Royal Bank of Canada

Toronto Dominion Bank

National Bank of Canada

Canadian Western Bank

Bank, Loan and Trust Corporations

Advisor's Advantage Trust (BMO)

AGF Trust Co.

Citizens Bank

Equitable Trust

Home Trust Company

HSBC Bank

Manulife Bank

Maple Trust

Montreal Trust Canada

National Bank

TD Mortgage Corp.

Other

Meridian Credit Union

One Investment Program (One Funds)

APPENDIX B - APPROVED LIST OF INVESTMENTS

Permitted Investments

Per legislative authority, the only eligible investments are those securities issued or guaranteed by:

- a) Canada or a province or territory of Canada
- b) An agency of Canada or a province or territory of Canada
- c) A bank as per Schedules I and II of the *Bank Act*.
- d) A loan or trust corporation registered under the *Trust and Loan Companies Act*.
- e) A credit union or league to which the *Credit Union and Caisses Populaires Act* applies
- f) The Province of Ontario Savings Office
- g) A municipality in Canada
- h) A school board in Canada
- i) A local board as defined in the *Municipal Act, 2001*
- j) A conservation authority established under the *Conservation Authorities Act*
- k) The Municipal Finance Authority of British Columbia
- l) A corporation if it is secured by the assignment to a trustee, as defined in the *Trustee Act*

Approved Type of Investments

Type of Investment	Short Term	Long Term	Safety	Liquidity	Rate of Return	Max Amount
Bank Deposits	X		High	High	Low	100%
Bankers Acceptance	X		High	High	High	50%
Asset-Backed Commercial Paper (ABCP) (ONLY Bank Sponsored)	X		High	High	High	50%
Canada Treasury Bills	X		High	High	Low	100%
Provincial Treasury Bills	X		High	High	Low	100%
Term Deposits	X		Medium	Medium	Medium	50%
Guaranteed Investment Certificates	X	X	Medium	Medium	Medium	50%
Federal/Provincial Bonds		X	High	High	Low	100%
Municipal Debentures		X	High	Low	High	50%
Corporate Bonds/Debentures		X	Low	Medium	High	25%
One Funds Money Market Portfolio	X		High	High	Low	25%
One Funds Bond Portfolio		X	High	High	Medium	15%
One Funds Equity Portfolio		X	Low	High	High	15%
One Funds Universe Corporate Bond Portfolio		X	Medium	High	High	15%
One Funds Balanced Portfolio		X	Medium	High	Medium	15%

APPENDIX C - CREDIT RATINGS & AGENCIES

Agencies

Moody's Investor Services Inc. – Moody's
 Dominion Bond Rating Service Limited – DBRS
 Standard and Poor's Inc. – S & P

Money Market Ratings

Moody's Investor Services Inc.

P-1	Prime Credit
P-2	Medium Grade Credit
P-3	Below medium Grade Credit

Dominion Bond Rating Service

R-1	Prime Credit
R-2	Medium Grade Credit
R-3	Below medium Grade Credit

Long Term Debt Ratings

Rating Quality	Moody's	DBRS	S & P
Highest	Aaa	AAA	AAA
Very Good	Aa	AA	AA
Good	A	A	A
Medium Grade	Baa	BBB	BBB
Lower Grade	Ba	BB	BB
Poor	B	B	B
Speculative	Caa	CCC	CCC to C
Default	Ca to C	CC to C	D

Moody's Short-Term Debt Ratings

Moody's short-term debt ratings are opinions of the ability of issuers to punctually repay senior debt obligations that have an original maturity not exceeding one year. Obligations relying upon support mechanisms such as letters-of-credit and bonds of indemnity are excluded unless explicitly rated. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Prime-1

Issuers rated **Prime-1** (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. **Prime-1** repayment ability will often be evidenced by many of the following characteristics:

- Leading market positions in well-established industries
- High rates of return on funds employed
- Conservative capitalization structure with moderate reliance on debt and ample asset protection
- Broad margins in earnings coverage of fixed financial charges and high internal cash generation
- Well-established access to a range of financial markets and assured sources of alternate liquidity

Prime-2

Issuers rated **Prime-2** (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3

Issuers rated **Prime-3** (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Not Prime

Issuers rated **Not Prime** do not fall within any of the Prime rating categories.