



## **Investment Policy**

**Policy Manual Section:** Finance - General

**Policy Number:** F-GEN-003

**Authority:** CR/28/16

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**Department Responsible:** Finance

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### **Purpose:**

The goal of the investment policy shall be to set out the guiding principles and establish a statement of the investment policies and goals for the purpose of investing public funds while meeting the related statutory requirements of section 418 of the Municipal Act, 2001 and Ontario Regulation 438/97, Eligible Investments and Related Financial Agreements, as amended.

### **Delegation of Authority:**

Authority to manage the investment program is granted to the Town Treasurer, hereinafter referred to as the Investment officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who has the authority to:

- 1) Enter into agreements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.
- 2) Execute and sign documents on behalf of the corporation and perform all other related acts in the day-to-day operation of the investment and cash management program.
- 3) 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.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.



## **Primary Objectives**

The most prudent primary objectives for this Investment Policy, in order of importance are:

- a) Adherence to statutory requirements
- b) Safety
- c) Liquidity
- d) Yield

## **Adherence to Statutory Requirements**

All investment activities shall be in compliance with the relevant sections of any applicable legislation and related regulations. Refer to Appendix B for a description of O. Reg 438/97 under the Municipal Act, 2001.

## **Safety**

After ensuring adherence to statutory requirements, safety shall be the top objective of this investment program. The investment of government funds must seek to ensure the preservation of capital in the overall portfolio. In meeting that objective, the Town will want to be sure to mitigate credit risk, interest rate risk, as well as foreign exchange risk.

### **Credit Rate Risk**

Credit risk is the risk of loss due to uncertainty in a counterparty's ability to meet its financial obligation. To achieve the goal of minimizing credit risk, the Town of LaSalle shall limit its investments to the following types of securities:

- Bonds, debentures, or other evidences of indebtedness of or guaranteed by the Government of Canada, the Province of Ontario, or another Province of Canada.;
- Bonds, debentures or promissory notes guaranteed by a metropolitan, regional, county or district municipality, a school board, a local board as defined in the Municipal Affairs Act or a conservation authority established under the Conservation Authorities Act;
- Bonds, debentures, term deposits, deposit notes, certificates of instruments issues, accepted, guaranteed or endorsed by any Schedule I banks, Schedule II banks, loan or trust corporations with a minimum DBRS rating of R-1 middle, as set by the Dominion Bond Rating Service or "A" by the Canadian Bond Rating Service or issued by credit unions.
- Pooled investments operated by The One Investment Program.



### Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. To achieve this goal, 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. Also, the Town will invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investments pools and limit the average maturity of the portfolio in accordance with the following policy.

### Foreign Exchange Risk

Foreign exchange risk is the risk of an investment's value changing due to changes in currency exchange rates. In order to remove any risk to the Town from foreign exchange fluctuation, the Town is not permitted to invest in any security that is expressed or payable in any currency other than Canadian dollars, unless attempting to mitigate the foreign exchange risk associated with the purchase of significant capital assets. In these isolated cases, the investment denominated in the foreign currency shall be recommended by the Director of Finance and Treasurer to the Chief Administrative Officer and Council for approval.

Refer to Appendix A for a detailed listing of investment and sector limitations.

### Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity).

Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools, which offer same day liquidity for short-term funds.

### Yield

The investment portfolio will be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning fair return relative to the



risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

### **Standards of Care**

The Standards of Care to be used by the Investment officer, are prudence, ethics and conflicts of interest, and delegation of authority.

#### **Prudence**

The standard of prudence to be used by the Investment Officer 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 this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "prudent person" standard states that, "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".

#### **Ethics and Conflicts of Interest**

The Town's Investment Officer 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. The Investment Officer shall disclose any material interests in financial institutions with which he or she conducts business with. He or she shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. The Investment Officer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.



### **Safekeeping and Custody**

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

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

### **Reporting**

The Investment Officer shall prepare an investment report quarterly. This management summary will be prepared in a manner which will allow the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to Council through the quarterly financial report. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.
- Average weighted yield to maturity of portfolio on investments

### **Performance Standards**

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 during a market / economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmarks shall have a similar weighted average maturity as the portfolio.

### **Policy Review**

This policy will be periodically reviewed and updated as required. This policy must be reviewed by the stated review date and approved by the responsible department.

### **Attachments:**

Appendix A



## Appendix A – Authorized Investments and Sector Limitations

As permitted in By-laws #5968 and #5969, the Town is permitted to maintain a shareholder interest by holding common and preferred shares of the Essex Power group of companies as well as bonds, debentures, and promissory notes in the companies. Given the nature of the investment in the Essex Power group of companies, the following investment thresholds exclude the Town of LaSalle's investment in Essex Power Corporation.

Description	Value
Maximum cash to be held in investments at any one time	\$10,000,000

### Term Limitation Thresholds

Term	Minimum Percentage	Maximum Percentage
Less than 1 year	25%	100%
From 1 year to 3 years	-	75%
From 3 years to 5 years	-	50%
From 5 years to 10 years	-	25%

### Sector Limitations

Sector	Minimum Limit of Portfolio	Maximum Limit of Portfolio
Federal	-	25%
Provincial	-	25%
Municipality, School Board, Conservation Authority	-	25%
Pooled investments operated by the One Investment Program	-	25%
Schedule I Banks	-	100%
Schedule II Banks and Credit Unions	-	100%