



To: Finance Committee  
 From: Jerry Chong  
 Director, Finance  
 Re: Investment Policy

Date: April 26, 2007  
 File:

**Staff Recommendation**

1. That Investment Policy 3702 (adopted by Council on September 8, 1997 and amended on June 28, 1999) be rescinded; and
2. That the proposed Investment Policy (attached to the report dated April 26, 2007 from the Director, Finance) be adopted.

Jerry Chong  
 Director, Finance  
 (4064)

Att. 2

FOR ORIGINATING DEPARTMENT USE ONLY					
ROUTED TO:	CONCURRENCE		CONCURRENCE OF GENERAL MANAGER		
	YES	NO			
LAW	chc <input checked="" type="checkbox"/>	<input type="checkbox"/>			
REVIEWED BY TAG	YES	NO	REVIEWED BY CAO	YES	NO
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## Staff Report

### Origin

The current investment policy was initially adopted on September 8, 1997 and subsequently amended on June 28, 1999. Since the time of the last amendment the Community Charter has been introduced and the amount and the level of sophistication with the City's investment portfolio has increased.

### Analysis

Staff reviewed the existing investment policy and identified various sections that required updating and modification. In addition, staff reviewed policies of other Cities as well as standard investment policies as provided by the Government Finance Officers Association (GFOA). Based on staff's analysis and the information obtained, the following sections have been amended;

#### 4 – Authorization (modified)

- The proposed policy incorporates a provision for the investment portfolio to be managed by external Investment Manager(s).
- Wording was added to this section to clarify the key governance responsibilities between major parties involved: the City, the Investment Manager(s), and the City's custodial bank.

#### 6 – Implementation (new)

- The proposed policy will provide flexibility in investment style. The City will be able to adopt either an active or a passive investment style depending on requirements.

#### 8 – Permitted investments (modified)

- The proposed policy reflects that the restrictions and allowances for investment of municipal funds as dictated by the Community Charter, Section 183, rather than the Local Government Act, Section 483.
- Limits for each asset class and sector are now defined for each asset class directly in the policy.
- The proposed policy has added Schedule III bank issues to the list of asset classes in which the City may invest. Schedule III banks are branches established in Canada by foreign institutions as authorized under the Bank Act.
- Pooled funds with the Municipal Finance Authority have been added as an allowable investment.
- This section effectively replaces Section 10, Portfolio Constraints from the previous policy.

#### 9 – Diversification (modified)

- The targeted diversification has been revised to reflect current market conditions and City's cash requirements.

	Previous	Proposed	Minimum	Maximum
Cash and Equivalents	25%	35%	10%	45%
Bonds	75%	65%	55%	90%

- The Scotia Capital Domestic Bond Index will become the basis for benchmarking the bond component of the portfolio. This index has been chosen as it is the industry standard for measuring performance of fixed income assets. Indices falling under this index include:
  - Scotia Universe All Government Index
  - Scotia Short Term All Government Index
  - Scotia Mid Term All Government Index
  - Scotia Short/Mid All Government Index
  - Scotia Long Term All Government Index
- The selection of the benchmark against which performance will be measured will depend on whose duration is closest to the duration of the portfolio at the time period of evaluation.

**Financial Impact**

None.

**Conclusion**

The new investment policy be adopted by Council.



Jerry Chong  
Director, Finance  
(4064)

JC:jc



**POLICY 3702:**

**1. POLICY**

The purpose of this investment policy is to establish and maintain practices and procedures to invest public funds with the highest return on investment and with the maximum security and appropriate liquidity while meeting daily cash flow demands and conforming to all legislation governing the investment of public funds. This policy applies to the investment activities of the General, Water, Sewer, Capital, Trust and Reserve Funds.

**2. OBJECTIVES**

The primary objectives of investment activities will be adherence to statutory requirements, safety, liquidity and return on investment.

- **Statutory Requirements:** Authority for investment guidelines of municipal funds is provided in section 183 of the Community Charter.
- **Safety:** Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Preservation of capital will be accomplished through
  - Diversification, as outlined in paragraph 9, and
  - Risk control, whereby portfolio components are limited to safer types of investments as defined in paragraph 8.
- **Liquidity:** The investment portfolio will be administered to ensure adequate cash flow is available to meet all reasonably anticipated operating requirements.
- **Return on Investment:** The investment portfolio will be designed with the objective of maximizing the rate of return through budgetary and economic cycles. The Financial Officer will take into account these constraints and objectives in the selection of investments to be included in the City's portfolio. The portfolio will be structured to attain optimum performance results as directed by the Policy, and to create maximum value to the City, net of any costs incurred in the investment process.

**3. PRUDENCE**

Investments will be made with judgement and care, under circumstances then prevailing, by persons of prudence, discretion and intelligence exercised in the management of other people's affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. Where external managers are engaged to perform trading activity, the external managers will be required to exercise the degree of care, diligence, and skill which a prudent investment counsel would exercise in similar circumstances. The Financial Officer acting in accordance with this policy and exercising due diligence will be relieved of personal responsibility for an individual security's credit risk or market price changes.

**4. AUTHORIZATION**



Authority to manage the City's investment program is derived from section 149 of the Community Charter, as follows:

“Financial Officer

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

- a) receiving all money paid to the municipality;
- b) ensuring the keeping of all funds and securities of the municipality;
- c) investing municipal funds, until required, in authorized investments;
- d) expending municipal money in the manner authorized by the council;
- e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;
- f) exercising control and supervision over all other financial affairs of the municipality.”

The Financial Officer is the portfolio administrator and has the ultimate responsibility for the prudent investment of the portfolio. The Financial Officer may retain a professional investment manager(s) (“Investment Manager(s)”) to provide investment advice and carry out the instructions of the Financial Officer.

The Financial Officer will:

- administer the Policy;
- review the Policy annually, which will include a reassessment of the fund’s objectives, the benchmark portfolio and the impact of any changes in liquidity requirements if necessary;
- select the Investment Manager(s) and City’s custodial bank;
- regularly review the quantitative and qualitative performance of the Investment Manager(s) including an evaluation of the rates of return, an analysis of the areas where the Investment Manager(s) added or reduced value, and a review of the Investment Manager(s) in the context of the criteria for their selection;
- be responsible for regularly monitoring the asset mix of the portfolio and taking the action necessary, to correct any breaches of applicable legislation or the permitted asset mix ranges set out in this Policy;
- provide information on significant cash flow changes to the Investment Manager(s);
- be responsible for the oversight of any professional Investment Manager(s).
- have the authority to appoint and terminate the Investment Manager(s).

The Investment Manager(s) will:

- provide the Financial Officer with monthly reports of actual portfolio holdings, detailing each class of assets and how they conform to policy maximums as defined in section 8 and 9;
- present to the Financial Officer a quarterly review of investment performance, including an explanation of any shortfalls of their investment results compared to the investment objectives;
- provide estimates of future returns on investments and review proposed investment strategies that may be used to meet the objectives;
- attend a meeting with the Financial Officer at least once each year to review the results they have achieved;
- inform the Financial Officer promptly of any element of the Policy that could prevent attainment of the Plan’s objectives;
- give prompt notice to the City’s custodial bank of all purchases and sales of securities;
- report all investment transactions quarterly to the Financial Officer;



- provide the Financial Officer with a quarterly certificate of compliance with the Policy for the quarter just ended.

**5. ETHICS AND CONFLICT OF INTEREST**

The Investment Manager(s), Financial Officer and any individuals involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program or impair ability to make unbiased investment decisions. Parties will disclose any material personal financial interest in investments involved or in financial institutions that conduct business with the City. Any deviation is to be reported to the City Solicitor immediately.

**6. IMPLEMENTATION**

An active or passive investment style may be adopted, depending on suitability of each in meeting the City's investment objectives.

**7. AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS**

The Investment Manager(s) will be registered with a regulated securities commission. They will be responsible for maintaining a list of approved financial institutions and brokers/dealers authorized to provide investment services. An annual review of this list will be completed by the Investment Manager(s), whereupon, the recommendations for any additions and deletions will be discussed and approved by the Financial Officer.

**8. PERMITTED INVESTMENTS**

Under the Community Charter Section 183, "a municipality may invest money that is not immediately required in one or more of the following:

- a) securities of the Municipal Finance Authority;
- b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
- c) securities of Canada or of a province;
- d) securities guaranteed for principal and interest by Canada or by a province;
- e) securities of a municipality, regional district or greater board;
- f) investments guaranteed by a chartered bank;
- g) deposits in a savings institution, or non-equity or membership shares of a credit union;
- h) other investments specifically authorized under this or another Act."



Potential investments may include the following:

Asset Class	DBRS Ratings	Long Term	Limits per issue
Federal & Federally guaranteed	R-1 high	AAA	\$100m
Province of BC & Province of BC guaranteed	R-1 high	AA	\$50m
Alberta	R-1 high	AAA	\$70m
Ontario	R-1 high	AA	\$50m
All other provinces		AAA	\$70m
All other provinces		AA	\$50m
All other provinces		A	\$30m
TOTAL PROVINCES (incl BC)			\$300m
Schedule I & II & III banks		AAA	\$50m/bank
Schedule I & II & III banks		AA	\$50m bank
Schedule I & II & III banks		A	\$30m bank
Total Schedule I & II & III banks			\$300m
Pooled funds			\$150m in total
Except for VanCity, credit unions terms are limited to a period of 90 days.			
VanCity			\$25m
Coast Capital			\$25m
BC Central Credit Union			\$25m
Other Credit Unions			\$25m
Total Credit Unions			\$60m



9. DIVERSIFICATION

The City recognizes that prudence in investment selection is essential to minimize interest rate and credit risk.

- Interest Rate Risk – The Investment Manager(s) will monitor the duration of the bond portfolio to ensure it falls within a year and a half of the duration of the benchmark against which bond performance is measured. This assessment will be conducted at interim and annual reporting periods.
- Credit Risk – The Investment Manager(s) will minimize credit risk by investing in safer type of instruments. A minimum of 90% of the portfolio’s market value is required to carry a credit rating of AA or higher.

Diversification will be achieved through:

- setting limits on the amount of investments with a specific maturity, from a specific issuer or a specific sector;
- investing the targeted amount of assets in liquid investments to ensure funds are readily available;
- selecting assets with varying maturity terms.

In addition, the Investment Manager(s) will engage in the rebalancing of the portfolio to adhere to parameters defined below.

Asset Class	Minimum	Target	Maximum	Benchmark
Cash & Equivalents	10%	35%	45%	Scotia Capital 91 day T-Bill index
Bonds	55%	65%	90%	Matched to one of the indices falling under the Scotia Capital Domestic Bond Government Index.

Asset Class	Minimum	Maximum
Federal & Federally guaranteed	25%	75%
Province of BC	0%	25%
Alberta	0%	25%
Ontario	0%	25%
Manitoba	0%	25%





New Brunswick	0%	25%
Nova Scotia	0%	25%
Quebec	0%	25%
Saskatchewan	0%	25%
Newfoundland	0%	5%
Prince Edward Island	0%	5%
TOTAL PROVINCES (and guaranteed)	15%	50%
Schedule I, II & III banks	0%	10%
Total Schedule I, II & III banks	0%	50%
Pooled funds	0%	20%

**10. COMPETITIVE BIDS**

The Financial Officer or Investment Manager(s) will solicit competitive verbal quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that, from time to time, offerings of value may require immediate action. Under such circumstances competitive bids may not be sought provided that value can be substantiated by market data.

**11. SAFEKEEPING AND CUSTODY**

All transactions will be executed by the delivery-versus-payment basis to ensure securities are deposited in an eligible financial institution with the release of funds. Settlement will take place at the main branch of the City's custodial bank in any Canadian city. Securities will be held by the City's custodial bank or alternatively, will be registered with the Central Depository for Securities (CDS).

- **Authorization:** The custodial bank will not accept delivery or payment without prior authorization and instructions for the City.
- **Evidence:** All transactions traded in-house will be evidenced by a contract advice from the investment dealer, as well as a settlement advice from the custodial bank.
- **Registration:** All securities that are in registerable form will be registered in the name of the City of Richmond.