City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	June 24, 2022
From:	Ivy Wong Acting Director, Finance	**File:**	03-0900-01/2022-Vol 01
Re:	**Alternative Investment – Long-Term Diversified Multi-Asset Class Fund**		

Staff Recommendation

1. That Council approve up to $40M as a long-term investment in the Municipal Finance Authority of BC's Long-Term Diversified Multi-Asset Class Fund, as outlined in the Option section of the staff report titled "Alternative Investment – Long-Term Diversified Multi-Asset Class Fund" dated June 24, 2022 from the Acting Director, Finance; and

2. That the proposed amendment to the City's Investment Policy 3703 be approved.

Ivy Wong
Acting Director, Finance
(604-276-4046)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER Acting GM, F&CS	
SENIOR STAFF REPORT REVIEW	**INITIALS:** CJ
APPROVED BY CAO	

6904414

Staff Report

Origin

At the March 7, 2022 Finance Committee meeting, staff were directed to conduct a review and assessment to facilitate Council in considering the Municipal Finance Authority BC's (MFA) Long-Term Diversified Multi-Asset Class Fund (DMAC Fund).

The DMAC Fund is a long-term investment tool where investment funds are intended to be invested for a period of 10 years or longer. To be eligible for the DMAC Fund, investors are required to obtain Council's approval on the identification of suitable designated funds and are required to amend their Investment Policy to include the notion of a long-term portfolio.

The purpose of this report is to provide Council with staff's review and assessment of the suitability of the DMAC Fund to the City and to seek Council's further directives should Council approve the use of the DMAC Fund as a long-term investment tool for the City.

This report supports Council's Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

> *Accountable, transparent, and responsible financial management that supports the needs of the community into the future.*
>
> *5.1 Maintain a strong and robust financial position.*

Findings of Fact

The City's permitted investments are restricted to securities of Government of Canada, Canadian provinces, municipalities, regional districts, chartered banks, credit unions, MFA securities and MFA pooled investment funds under section 183 of the *Community Charter*.

Through existing legislation, MFA may offer any Pooled Investment Fund it believes best serves B.C. local governments. At the 2019 UBCM Convention, a motion was passed to call for 'Expanded Asset Class Investments Under Prudent Investor Rules'. In response to the motion, the MFA, through collaboration with local government finance professionals and MFA's Trustees, created a new DMAC Fund as a long-term investment option for local governments.

The DMAC Fund offers a broad diversification and asset mix, mainly with the inclusion of global equity investments and alternative securities that are otherwise not permissible as direct municipal investments under the existing legislation.

Analysis

DMAC Fund Profile Overview

- The DMAC Fund is an investment vehicle designed specifically for long-term investment of local government reserves.
- It is professionally managed by PH&N at a management fee of 0.33% per annum.
- The DMAC Fund is a diversified portfolio of global assets with a target allocation of 25% in fixed income, 60% in equities, and 15% in alternative investments.
- The DMAC Fund aims to achieve an average inflation-adjusted return of 3.5% annually over the holding period of 10 years or longer.
- Participants of the DMAC Fund should have a long-term view when considering the fund's performance and should avoid selling the investment during a market downturn in order to cut down on capital losses.
- MFA requires that members should only invest in the DMAC Fund if they have suitable reserves that can be held in the fund for a minimum of 10 years.
- The DMAC Fund will employ several Responsible Investing lenses and is considered a low-carbon fund. As a signatory of the United Nations' Principle for Responsible Investing, PH&N is required to incorporate broad Environmental, Social and Governance (ESG) considerations into its investment processes.
- The DMAC Fund's investments and portfolio mandate will change and evolve as ESG standards continue to develop and harmonize.

DMAC Fund Performance

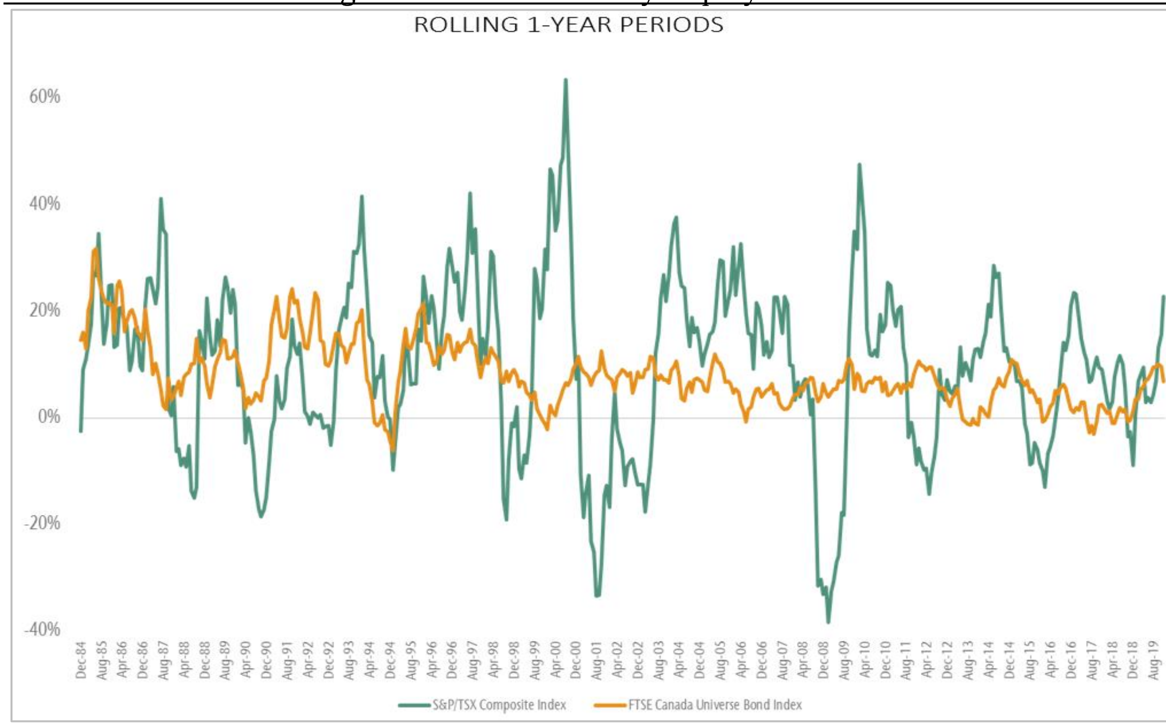
The recent sell-off in the equity markets due to the expectations of further interest rate hikes have hampered global financial markets, which is reflected in the price of the DMAC Fund. The DMAC Fund was introduced in January 2022 and the portfolio allocation is still in its initial transitional period of being adjusted and built up to the target allocation, therefore current performance should not be used as an indication of future performance.

Attachment 1 provides an overview of the latest published performance of the DMAC Fund as of April 30, 2022. The DMAC Fund reported a negative return of 5.50% as of April 30, 2022. Current fund performance continues to be negatively impacted by the market volatility attributed to the interest rate environment and other global political and economic factors.

Volatility and Liquidity

Due to the diversification of investments in the DMAC Fund and the intricate interconnectivity and complexity of the financial markets, the DMAC Fund will inherently be more volatile than fixed income investments (or other forms of permitted local government investments). Chart 1 below provides an illustration of the historical price volatility comparison between equity investments and fixed income instruments.

Chart 1 - Historical Rolling 1-Year Price Volatility: Equity Index and Canadian Bond Index



Despite the higher volatility associated with equity investments, the DMAC Fund is expected to provide higher returns in the long-term. Participants of the DMAC Fund should have a long-term view when considering the fund's performance to avoid selling the investment during a market downturn in order to cut down on capital losses. Therefore, MFA requires that members should only invest in the DMAC Fund if they have suitable reserves that can be held in the fund for a minimum of 10 years.

Evaluation of DMAC Fund

The DMAC Fund offers geographic, industry and risk diversification that is generally less risky than a narrow or country-specific investment portfolio.

Experts in the field of investing suggest that local government permitted investments (e.g. term deposits and fixed income bonds) expose local governments to increased concentration risks in Canada and the banking/financial sector. Conversely, the DMAC Fund, through its diversification, provides a global approach that incorporates a wider range of geographic coverage and industry sectors with differing growth opportunities over time, thus increasing the opportunity to outperform and mitigate political, economic, country-specific and/or industry-specific risk factors.

A well-diversified portfolio, like the DMAC Fund, which invests in funds across multiple market sectors and asset classes allows an investor to ride out downturns with less volatility than that experienced in more narrow investment asset classes. Staff believe that investing in a combination of DMAC fund and other MFA pooled funds, while maintaining the current portfolio management strategies can bring long-term benefits to the City by enhancing returns and balancing overall risks.

Accounting Implication

The Public Accounting Board Standards may require financial instruments such as the DMAC Fund be recorded on a fair value basis at each financial reporting date to reflect all unrealized gains or losses due to market value fluctuation. Any such market fluctuations will be presented in the Statement of Comprehensive Income of the City's financial statements for reporting purposes.

Reserves Suitable for Long-Term Investment

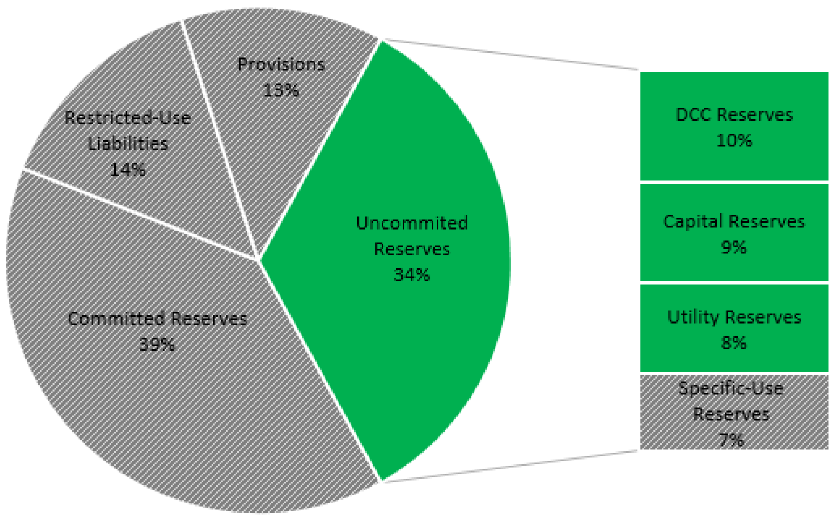
Staff have reviewed all the City's reserves and restricted liabilities balances in assessing which fund(s) would be suitable in meeting the 10-year or longer holding requirements of the DMAC Fund and the observations are as follows:

- Approximately 73% of the City's available funds are related to committed amounts that are set aside for approved capital projects, reserves that are to be utilized by specific purposes and future financial obligations. The DMAC Fund may not be suitable for these balances due to timing of cash flow requirements.

- The estimated annual capital requirement from reserves is expected to range from $65 million to $95 million a year on capital projects such as major capital buildings replacement program, corporate facilities implementation plan, strategic land acquisition plan and the accelerated flood protection and dike programs etc., in accordance with the City's 5-Year Financial Plan (2022-2026).

See Chart 2 below for a high-level summary of the City's investment funds by fund category and their assessed general suitability to the DMAC Fund.

Chart 2: Investment Balance by Fund Category



*Grey portions (73% of total) represent balances that are deemed not suitable for the DMAC Fund due to cash flow requirements.

The following uncommitted reserve balances have established long-term plans, ongoing funding, sufficient balances and controlled usage which make them potentially suitable for long-term investments:

Development Cost Charges (DCC)
The current uncommitted balance of DCC is approximately $140 million. DCC funds are collected from developers to fund the cost of capital infrastructure required to support growth over the long-term Official Community Plan (OCP) timeframe.

Capital Reserves
The current uncommitted balance of Capital Reserves is approximately $120 million. The Capital Reserves have ongoing funding along with frequent and high usage for all general capital expenditures, including major facilities, land acquisitions, and other strategic capital projects as directed by Council. This includes the Capital Building Infrastructure Reserve, which is identified as part of Council's Long-Term Financial Management Strategy (LTFMS) Policy concerning the annual 1% transfer to reserve towards infrastructure replacement needs.

Utility Reserves
The current uncommitted balance of Utility Reserves is approximately $100 million. These reserves are the primary sources of capital funding for critical infrastructure such as watermain replacements, sanitary sewer projects and drainage improvement and dyke upgrades.

Upon review of the approved and projected long-term capital requirements, staff have determined that approximately 10% of the available uncommitted balances (i.e. estimated total of $36 million based on current available balances) could meet the criteria which would allow designation for long-term DMAC Fund investment purposes.

Options

MFA requires that members should only invest in the DMAC Fund if they have suitable reserves that can be held in the fund for a minimum of 10 years. With the availability and liquidity of reserve funds, the City has been able to demonstrate flexibility by allocating funding strategically to deliver Council-approved infrastructure improvement projects and new facilities construction over the past years.

More recently the City has increased its borrowing in order to preserve reserve balances for future critical infrastructure and community facility projects such as the accelerated flood protection program and various major capital building improvements. Further commitment of reserves may impact these projects and may limit the delivery of strategic projects in future years.

Staff have identified the following proposed DMAC Fund Investment options for Council's consideration:

Option	Proposed Investment Range	Reserves suitable to be designated for DMAC Fund Investment	Impact of locking in proposed reserve funds for 10 years or longer
1	$0 to $10,000,000	DCC and Utility Reserves	No notable impact to reserves.
2	$10,000,001 to $20,000,000	DCC and Utility Reserves	No notable impact to reserves.
3	$20,000,001 to $40,000,000	DCC, Utility Reserves and Capital Reserves	Reduction in the accessibility of capital reserve funds may occur.
4	$40,000,001 to $80,000,000	DCC, Utility Reserves and Capital Reserves	Reduction in the accessibility of capital reserve funds will impact the development of future community facilities and other strategic projects and will potentially lead to future borrowings.

Senior staff have reviewed the impacts and recommend Option 3, up to $40M be invested in the DMAC Fund.

Proposed Update to Investment Policy 3703

If the MFA DMAC Fund is considered to be an acceptable long-term investment and once the desired investment amount has been endorsed by Council, the notion of long-term investments is required to be explicitly outlined in the City's Investment Policy 3703. Staff recommend adding the below section 3 to the City's Investment Policy 3703:

"3. LONG TERM PORTFOLIO

After first ensuring adequate short and mid-term liquidity, the Financial Officer may designate monies not needed for 10 years or longer as "Long-term: 10 years+" and suitable for investments with long investment horizons. If funds have been designated as "Long-term: 10 years+" the Financial Officer may, with approval of Council, invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

It is the City of Richmond's intent to hold long-term investments to maturity and in the case of perpetual funds, it is the City of Richmond's intent to hold these investments for 10 years or longer.

For the purposes of assessing performance of the long-term portfolio, quarterly returns will be evaluated on a rolling three, four, and five-year basis versus a suitable benchmark."

Once the long-term investment approach and updated Investment Policy 3703 is approved, staff will work with the MFA team to determine the appropriate timing in participating in the DMAC Fund. Upon participation into the DMAC Fund, the Fund's performance results will be reported back to Council regularly through the City's quarterly financial information report.

See Attachment 2 for the black-lined version of the proposed amendments to Investment Policy 3703.

Financial Impact

None.

Conclusion

If Council considers MFA DMAC Fund to be an acceptable long-term investment tool for the City, Council's direction and approval on the amount of designated reserve fund(s) is requested. Council's endorsed direction will enable staff to proceed with the required process in order for the City to participate in the MFA DMAC Fund.

Venus Ngan
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: DMAC Fund Performance Report (April 2022)
2: Black-lined Version of Updated Investment Policy 3703

MFA DMAC Fund

The primary purpose of the DMAC Fund is to invest capital over the long-term to grow at a rate that exceeds inflation, while minimizing risk through asset class selection and diversification. The fund shall be broadly diversified among Fixed Income, Equities and Alternatives. The fund aims to provide risk-adjusted real returns of 3.5% over the long-term.

Over the month, the MFA DMAC fund returned -3.59%. Please note that the fund is currently in transition while we build up the fund's sector allocations to the target asset mix. As such, relative performance at the headline DMAC fund level is not as relevant or indicative of manager skill during this interim period.

The BlueBay Total Return Credit Fund was the largest relative underperforming fund of the month. Weakness was driven by a combination of rising yields caused by market expectations for further interest-rate hikes and spread widening. Conversely, the RBC QUBE Low Volatility Global Equity Fund posted the strongest returns relative to its benchmark as market volatility continued in April with global indices down over the month. The low volatility strategy performed as expected in this environment, protecting capital and outperforming broad markets due to its emphasis on the highest quality and most stable areas of the market

Total Return (%)	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception[2]
MFA DMAC Fund[1]	-3.59	-5.48	-	-	-	-	-5.50
MFA DMAC Fund Custom Benchmark[3]	*-3.53*	*-4.46*	-	-	-	-	*-4.51*
Difference	*-0.06*	*-1.02*	-	-	-	-	*-0.99*
MFA DMAC Fund[1]	-3.59	-5.48	-	-	-	-	-5.50
Canadian CPI (Non-Seasonally Adjusted) 1-month lag + 3.5%[4]	*1.67*	*4.16*	-	-	-	-	*4.13*
Difference	*-5.26*	*-9.64*	-	-	-	-	*-9.63*

[1] Total return less than 1 year is not annualized. Portfolio and benchmark performance is net of annualized fee and expenses of 33 basis points per annum.
[2] Inception date: January 19, 2022
[3] MFA DMAC Fund Custom Benchmark: 2% FTSE Canada 30 Day T-Bill Index, 15% FTSE Canada Short Term Overall Bond Index, 16% FTSE Canada 91 Day T-Bill Index, 17% S&P/TSX Capped Composite Total Return Index, 35% MSCI World Total Return Net Index (CAD), 12% MSCI Emerging Markets Total Return Net Index, 3% Canadian CPI (Non-Seasonally Adjusted) 1-month lag.
[4] MFA DMAC Fund secondary benchmark

Asset Mix	Midpoint Target Allocation[1]	Mar-31	Apr-30
Alternative Investments	**15%**	**2.8%**	**5.0%**
RBC Canadian Core Real Estate Fund	5%	2.8%	4.5%
High Yield Mortgages	5%	0.0%	0.4%
Infrastructure	5%	0.0%	0.0%
Equity Investments	**60%**	**64.5%**	**63.8%**
Emerging Market Equity	10%	10.6%	10.5%
Global Equities (low volatility)	11%	12.3%	12.7%
Canadian Equities	10%	10.9%	10.8%
Global Equities	24%	24.7%	23.8%
Canadian Equities (low volatility)	5%	5.9%	6.0%
Fixed Income Investments	**25%**	**30.3%**	**30.4%**
Canadian bonds	15%	14.8%	15.2%
Global Bonds	10%	15.5%	15.2%
Cash	**0%**	**2.2%**	**0.9%**

[1]The Fund Manager is authorized to tactically allocate a strategy's total portfolio weight within approved ranges, generally about +/- 5% - these target portfolio weights represent the mid-point of approved ranges

MFA DMAC Fund – Underlying Fund Gross of Fee Returns[1]

As of April 30, 2022

Total Return (%)	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception[2]
PH&N Canadian Money Market Fund	0.16%	0.24%	-	-	-	-	0.26%
FTSE Canada 30 Day T-Bill Index	*0.03%*	*0.06%*	-	-	-	-	*0.09%*
Difference	*0.13%*	*0.18%*	-	-	-	-	*0.17%*
PH&N Short Core Plus Bond Fund	-1.09%	-2.88%	-	-	-	-	-2.90%
FTSE Canada Short Term Overall Bond Index	*-0.92%*	*-2.95%*	-	-	-	-	*-2.93%*
Difference	*-0.17%*	*0.07%*	-	-	-	-	*0.03%*
BlueBay Total Return Credit Fund	-2.84%	-4.07%	-	-	-	-	-4.59%
FTSE Canada 91 Day T-Bill Index	*-0.07%*	*0.06%*	-	-	-	-	*0.11%*
Difference	*-2.77%*	*-4.13%*	-	-	-	-	*-4.70%*
PH&N Canadian Equity Fund	-5.04%	-1.47%	-	-	-	-	-1.69%
S&P/TSX Capped Composite Total Return Index	*-4.96%*	*-0.93%*	-	-	-	-	*-1.32%*
Difference	*-0.08%*	*-0.54%*	-	-	-	-	*-0.37%*
RBC QUBE Fossil Fuel Free Low Volatility Canadian Equity Fund	-3.19%	1.26%	-	-	-	-	1.98%
S&P/TSX Capped Composite Total Return Index	*-4.96%*	*-0.93%*	-	-	-	-	*-1.32%*
Difference	*1.77%*	*2.19%*	-	-	-	-	*3.30%*
RBC Vision Fossil Fuel Free Global Equity Fund	-7.23%	-12.02%	-	-	-	-	-12.36%
MSCI World Total Return Net Index (CAD)	*-6.18%*	*-7.72%*	-	-	-	-	*-7.40%*
Difference	*-1.05%*	*-4.30%*	-	-	-	-	*-4.96%*
RBC QUBE Low Volatility Global Equity Fund	-0.85%	-1.77%	-	-	-	-	-0.67%
MSCI World Total Return Net Index (CAD)	*-6.18%*	*-7.72%*	-	-	-	-	*-7.40%*
Difference	*5.33%*	*5.95%*	-	-	-	-	*6.73%*
RBC Vision Fossil Fuel Free Emerging Markets Equity Fund	-4.32%	-10.95%	-	-	-	-	-10.71%
MSCI Emerging Markets Total Return Net Index (CAD)	*-3.37%*	*-10.01%*	-	-	-	-	*-10.88%*
Difference	*-0.95%*	*-0.94%*	-	-	-	-	*0.17%*
PH&N High Yield Mortgage Fund	0.32%	-	-	-	-	-	0.32%[3]
FTSE Canada Short Term Overall Bond Index	*-0.92%*	-	-	-	-	-	*-0.75%*
Difference	*1.24%*	-	-	-	-	-	*1.07%*
RBC Canadian Core Real Estate Fund	4.14%	5.72%	-	-	-	-	5.72%[4]
Canadian CPI (Non-Seasonally Adjusted) 1-month lag + 4%	*1.72%*	*4.29%*	-	-	-	-	*4.29%*
Difference	*2.42%*	*1.43%*	-	-	-	-	*1.43%*

[1] Total return less than one year is not annualized. Portfolio and benchmark performance is gross of total fees.
[2] Inception date: DMAC Fund – January 19, 2022. [3] Inception date: PH&N High Yield Mortgage Fund – April 1, 2022. [4] Inception date: RBC Canadian Core Real Estate Fund – January 31, 2022.

POLICY 3703:

It is Council policy that:

1. POLICY

The purpose of this policy is to ensure that the City's practices and procedures in the investment of public funds are in compliance with statutory requirements of the *Community Charter*, while ensuring safety of capital, maintaining appropriate liquidity in meeting anticipated cash flow demands, and attaining a reasonable rate of return after taking into account the investment constraints and liquidity requirements.

2. OBJECTIVES

Conservative management philosophy is followed in investment activities of all public funds held by the municipality. Four fundamental objectives, in priority order, are as follows:

(i) Adherence to Statutory Requirements

Authority for investment guidelines of municipal funds is provided in section 183 of the *Community Charter.*

(ii) Safety of Capital

Investment activities 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 section 9, and
- Risk control, whereby portfolio components are limited to conservative types of investments as defined in section 8.

(iii) Liquidity of Investment

The investment portfolio will be administered to ensure adequate cash flow is available to meet all reasonably anticipated operating and capital requirements.

(iv) Return on Investment

The investment portfolio will be designed with the objective of maximizing the rate of return through budgetary and economic cycles, taking into account the investment constraints and liquidity requirements. 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. LONG-TERM PORTFOLIO

After first ensuring adequate short and mid-term liquidity, the Financial Officer may designate monies not needed for 10 years or longer as “Long-term: 10 years+” and suitable for investments with long investment horizons. If funds have been designated as “Long-term: 10 years+” the Financial Officer may, with approval of Council, invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

It is the City of Richmond’s intent to hold long-term investments to maturity and in the case of perpetual funds, it is the City of Richmond’s intent to hold these investments for 10 years or longer.

For the purposes of assessing performance of the long-term portfolio, quarterly returns will be evaluated on a rolling three, four, and five-year basis versus a suitable benchmark.

4. 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.

5. 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.

6. 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.

7. IMPLEMENTATION

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

8. 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.

9. 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.

The following table sets out the City's permitted investments, minimum credit rating requirements and their limits:

Asset Class	**Dominion Bond rating services limited (DBRS)[1] Short Term / Long Term Rating**	**Limits per issuer (as a % of total portfolio)**
Federal Issuers		
Securities issued or backed by the Government of Canada	No minimum requirement	No limit
PROVINCIAL ISSUERS		
All Provinces	R-1 (high) / AAA, AA (high), AA	25% per province
All Provinces	R-1 (middle) / AA (low)	20% per province
All Provinces	R-1 (middle) / A (high)	10% per province
All Provinces	R-1 (low) / A, A (low)	5% per province
TOTAL PROVINCES		Maximum 50%
Chartered Banks		
Schedule I, II & III banks	R-1 (high) /AAA, AA	15 % per bank
Schedule I, II & III banks	R-1 (middle) /AA, AA (low)	10 % per bank
Schedule I, II & III banks	R-1 (middle) / A (high)	5 % per bank
Schedule I, II & III banks	R-1 (low) / A (low)	3 % per bank
TOTAL CHARTERED BANKS		Maximum 50%
B.C. credit unions		
Credit unions with total assets[2] more than $10 billion		The greater of: (i) 10% of total portfolio balance per credit union, or (ii) $75 million per credit union
Credit unions with total assets[2] between $500 million and $10 billion		The greater of: (i) 5% of total portfolio balance per credit union, or (ii) $50 million per credit union
Federal credit unions Deposit term cannot exceed 1 year if long-term DBRS credit rating of A (low) is not attained[3]		
Federal credit unions with: • Long-term DBRS credit rating under A (low); and • Short-term DBRS credit rating higher than R-1 (low)		The greater of: (i) 5% of total portfolio balance per credit union, or (ii) $50 million per credit union
Federal credit unions with: • Long-term DBRS credit rating under A (low); and • Short-term DBRS credit rating R-1 (low)		The greater of: (i) 3% of total portfolio balance per credit union, or (ii) $30 million per credit union
TOTAL CREDIT UNIONS		Maximum 30%
Pooled Investments		
Pooled funds		Maximum 20%
OTHER SECURITIES		
Municipality, Regional District or Greater Board		Maximum 10%

[1] If DBRS credit rating is not available, the City can use an equivalent credit rating provided by an approved credit rating organization such as Standard & Poor's Corporation (S&P) and Moody's Investors Services Inc. (Moody's)
[2] Based on latest audited financial statements
[3] Federal credit union that has long-term DBRS credit rating A (low) or higher will follow the equivalent per issuer limits under the Chartered Bank section for its long-term and short-term investments, where the total investments in all credit unions cannot exceed a combined total of 30% of the City's investment portfolio.

10. DIVERSIFICATION

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

- Interest Rate Risk – At each interim and annual reporting periods, the Investment Manager(s) will monitor the performance of the cash and bond components of the portfolio against the selected benchmarks. The Investment Manager(s) will also assess the duration of the bond components of the portfolio to ensure they fall within a year and a half of the duration of the benchmark against which bond performance is measured. The 91-Day T-Bill Index will be the basis for benchmarking the cash component of the portfolio. For the bond components of the portfolio, the indices within the FTSE Canada Bond Index, or its equivalent prevailing index as amended from time-to time by the provider of the benchmarks, will be selected as the benchmarks. Selection of the appropriate benchmark for each bond component will be based on the index with the duration closest to the duration of the bond component being evaluated. The following indices fall within the FTSE Canada Universe Bond Index:

  FTSE Canada Universe All Government Index
  FTSE Canada Short Term All Government Index
  FTSE Canada Mid Term All Government Index
  FTSE Canada Short/Mid All Government Index
  FTSE Canada Long Term All Government Index

- Credit Risk – The Investment Manager(s) will minimize credit risk by investing in conservative types of instruments. A minimum of 90% of the portfolio's market value is required to carry a DBRS credit rating of A (high) or higher or the equivalent R1-middle 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; and
- Selecting assets with varying maturity terms.

In addition, the Investment Manager(s) will engage in the rebalancing of the portfolio to adhere to parameters as defined in this policy or any addendums agreed upon by the Financial Officer and the Investment Manager(s).

11. 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.

12. 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.
- **Repurchase Agreements:** In addition to all the terms and conditions above, the City's custodial bank will be responsible for ensuring that the repurchase agreement for overnight transactions has been duly executed.

13. INTERNAL CONTROLS

External audits will be performed annually, including an assessment of investment effectiveness and risk management.

14. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain an above market benchmark, taking into account the City's investment risk constraints, cash flow requirements, and active management strategy. This policy recognizes that the reliability of performance evaluation (i.e. comparison to benchmarks) increases with the duration of the measurement period.

15. REPORTING

The Financial Officer will prepare an investment report on a quarterly basis to Council. The report will provide a summary of the securities held at the end of the reporting period including issuer diversification and market values.

The Investment Manager(s) will conduct at each quarter end a review of the portfolio, including strategy employed, duration, liquidity, and a forecast of upcoming market conditions.

16. ADOPTION AND REVIEW

The policy will be reviewed annually by the Financial Officer, and any suggested modifications will be presented to Council for adoption.