



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** October 17, 2013

**From:** Jerry Chong  
Director, Finance

**File:** 03-0900-01/2013-Vol  
01

**Re:** Investment Policy Amendment

### Staff Recommendation

That Council Policy 3703 (Investment Policy) be amended as set out in Attachment C of the staff report titled "Investment Policy Amendment" dated October 17, 2013 from the Manager, Treasury and Financial Services.

Jerry Chong  
Director, Finance  
(604-276-4064)

REPORT CONCURRENCE		
<b>ROUTED TO:</b>	<b>CONCURRENCE</b>	<b>CONCURRENCE OF GENERAL MANAGER</b>
SMT Policy & Procedures Subcommittee	<input checked="" type="checkbox"/>	
<b>REVIEWED BY DIRECTORS</b>	<b>INITIALS:</b> 	<b>APPROVED BY CAO</b> 

## Staff Report

### Origin

Investment Policy 3703 (“Investment Policy”) was last amended and approved by Council on June 8, 2009. The Investment Policy is reviewed and revised as necessary in response to the developments in the financial markets and changes in the future outlook of the economy. Staff have reviewed the current Investment Policy and have identified areas for amendments, including modification to issuer diversification, credit risk control and administrative edits for additional clarity.

### Analysis

The current Investment Policy 3703 is included in **Attachment A**. The proposed amendments to sections 1, 2, 8 and 9 of Investment Policy 3703 are summarized below and are included in **Attachment B** (Track Changes Version) and **Attachment C** (Amended Version).

#### Section 1: Policy

Reword section to prioritize the City’s investment objectives and remove references to various types of funds as all public funds are managed in the same manner.

#### Section 2: Objectives

Change the format of the section to provide additional clarity and list the investment objectives in priority order (no change in objectives).

#### Section 8: Permitted Investments

The table below provides some general definitions of Dominion Bond Rating Services’ (DBRS) credit ratings for the purpose of understanding some of the changes in Section 8 of the investment policy:

Rating	Definition
AAA	Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.
AA	Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.
A	Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.
R1-high	Highest credit quality. The capacity for the payment of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.
R1-middle	Superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
R1-low	Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

The follow summarizes the proposed changes to Section 8 of the Investment Policy:

- *Federal Issuer (Government of Canada)*: Remove the minimum and maximum limits of federal issuers (was 25% and 75% of portfolio respectively) to increase investment flexibility and to improve return of investment portfolio. All federal issuers are rated with the highest credit quality with AAA credit rating.
- *Provincial Issuers*: Remove minimum provincial limit (was 15%). This will allow for increased investment flexibility and improved returns. Total provincial maximum limit of 50% is retained to ensure adequate diversification of the investment portfolio.

Since both AAA credit rating issuers and AA credit rating issuers are considered to have superior credit quality and they only differ to a small degree, the limits for AA (high) and AA have been increased from 20% to 25%. The table below illustrates the limit by Province based on the DBRS credit ratings as of October 2013 (ratings are be subject to change by DBRS as the risk of default of issuers may change due to future events):

DBRS (Short Term/Long Term)	Province(s) in category (as of October 2013)	Current Limit Per Issuer	Proposed Limit Per Issuer
R-1(high) /AAA	AB	25%	25%
R-1(high) /AA(high)	BC	20%	25%
R-1(high) /AA	SK	20%	25%
R-1(middle)/AA(low)	ON	20%	20%
R-1(middle) /A(high)	NB/NS/QC/MB	10%	10%
R-1(low) /A	NL	5%	5%
R-1(low) /A (low)	PE	5%	5%

- *Chartered Banks*: Increase maximum limit for chartered banks from 25% to 50% of total portfolio. Currently (and historically), highest attainable credit rating of all major banks is AA. To increase investment flexibility and improve return, the allowable limits are increased as summarized below. The table below provides an illustration of the limit by bank based on the DBRS credit ratings as of October 2013 (ratings are be subject to change by DBRS as the risk of default of issuers may change due to future events):

DBRS (Short Term/Long Term)	Bank(s) in category (as of October 2013)	Current Limit Per Issuer	Proposed Limit Per Issuer
R-1(high) /AAA	-	10%	15%
R-1(high) /AA	BMO/CIBC/Royal/Scotia/TD	5%	15%
R1(middle)/AA,AA(low)	HSBC/National Bank	5%	10%
R-1(middle) /A(high)	Manulife Bank	3%	5%
R-1(low) /A (low)	Canadian Western Bank	3%	3%

- **Credit Unions:** Since 2008, deposits in credit unions in B.C. are fully guaranteed by the Province (Credit Union Deposit Insurance Corporation). As a result of the unlimited deposit insurance protection, the maximum investments in B.C. credit unions is proposed to increase from 10% to 30% of the total portfolio balance and the maximum term of 365 days is proposed to be removed.

The proposed change also includes removing specific credit unions being named on the investment policy. In addition, the credit union investment limit is proposed to change from the current per issuer limit of the greater of 5% of total portfolio balance or \$30 million to:

Credit Union Type (B.C. Only)	Proposed Limit Per Issuer
Credit Unions with assets* > \$10 billion	The greater of: i) 10% of total portfolio balance, or ii) \$75 million
Credit Unions with assets* > \$500 million and < \$10 billion	The greater of: i) 5% of total portfolio balance, or ii) \$50 million

\*value of assets based on last audited financial statements

- **Credit Rating:** Add footnote to indicate the primary use of Dominion Bond Rating Services (DBRS) and other approved credit rating organizations' ratings (such as S&P and Moody's) be used if DBRS is unavailable.

## **Section 9: Diversification**

To ensure adequate risk diversification and to improve investment flexibility, it is proposed that the requirement that "a minimum of 90% of the portfolio's market value to carry a DBRS credit rating of AA of higher or the equivalent of R-1 (middle) or higher" be changed to "a minimum of 90% of the portfolio's market value to carry a DBRS credit rating of A (high) or higher or the equivalent of R-1 (middle) or higher"

This change will increase the City's investment flexibility while still ensuring that over 90% of the City's investments are held in secured investments with high credit ratings to achieve the City's four main investment objectives. The table below illustrates the increased diversification based on the DBRS credit ratings as of October 2013 (ratings are be subject to change by DBRS as the risk of default of issuers may change due to future events):

Type	Issuers with DBRS AA**or higher	Issuers with DBRS A (high)**or higher
Federal	Government of Canada Canada Housing Trust	Government of Canada Canada Housing Trust
Provincial	AB, BC, SK, ON	AB, BC, SK, ON NB, NS, QC, MB
Banks	BMO,CIBC,Royal,Scotia,TD, HSBC	BMO,CIBC,Royal,Scotia,TD, HSBC, National Bank, Manulife Bank

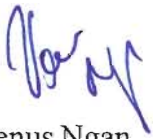
\*\*credit ratings valid as of October 2013

### **Financial Impact**

The proposed changes to the investment policy will increase the City's investment flexibility and is expected to result in improved investment return for the City while preserving capital and maintaining liquidity.

### **Conclusion**

The Investment Policy changes highlighted in this report will increase the City's investment flexibility in achieving the City's investment objectives of capital preservation, liquidity and reasonable return. The proposed amendments to sections 1, 2, 8 and 9 of Investment Policy 3703 are included in **Attachment C** of this report and are recommended for approval by Council.



Venus Ngan  
Manager, Treasury and Financial Services



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Adopted by Council: June 25, 2007  
Amended by Council: June 8, 2009

Policy 3703

File Ref: 03-1095-00

**INVESTMENT****POLICY 3703:****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.



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Adopted by Council: June 25, 2007  
Amended by Council: June 8, 2009

Policy 3703

File Ref: 03-1095-00

**INVESTMENT**

#### 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."





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

ASSET CLASS	DBRS Short Term / Long Term	LIMITS PER ISSUER (as a % of total portfolio)
FEDERAL ISSUERS		
Federal & Federally guaranteed	R-1 (high) / AAA	75% (min 25%)
PROVINCIAL ISSUERS (includes provincial government, provincial crown corporations, and provincially guaranteed)		
All Provinces	R-1 (high) / AAA	25% per province
All Provinces	R-1 (middle) / AA	20% per province
All Provinces (Except Newfoundland and Prince Edward Island)	R-1 (low) / A	10% per province
Newfoundland and Prince Edward Island	R-1 (low) / A	5% per province
TOTAL PROVINCES		50% (min 15%)
CHARTERED BANKS		
Schedule I, II & III banks	R-1 (high) / AAA	10 % per bank
Schedule I, II & III banks	R-1 (middle) / AA	5 % per bank
Schedule I, II & III banks	R-1 (low) / A	3 % per bank
TOTAL SCHEDULE I, II & III BANKS		25% (min 0%)
CREDIT UNIONS (credit unions terms are limited to a period of 1 year)		
VanCity	The greater of: i) 5% of total portfolio balance per credit union, or ii) \$30 million per credit union	
Coast Capital		
BC Central Credit Union		
Other Credit Unions		
TOTAL CREDIT UNIONS		The greater of: i) 10% of total portfolio balance, or ii) \$75 million (min 0%)
POOLED INVESTMENTS		
Pooled funds	20% (min 0%)	
OTHER SECURITIES		
Municipality, Regional District or Greater Board	10% (min 0%)	



## 9. 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 DEX Universe Bond Index 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 DEX Universe Bond Index:

DEX Universe All Government Index

DEX Short Term All Government Index

DEX Mid Term All Government Index

DEX Short/Mid All Government Index

DEX Long Term All Government Index

- 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 DBRS credit rating of AA 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).

## 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).



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Adopted by Council: June 25, 2007  
Amended by Council: June 8, 2009

Policy 3703

File Ref: 03-1095-00

**INVESTMENT**

- **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.

**12. INTERNAL CONTROLS**

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

**13. 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.

**14. 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.

**15. ADOPTION AND REVIEW**

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

## 1. POLICY

The purpose of this ~~investment~~ policy is to ~~establish and maintain~~ ensure that the City's practices and procedures ~~to invest 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, 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. 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:~~

Investments ~~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:

- o Diversification, as outlined in ~~paragraph section~~ 9, and
- o Risk control, whereby portfolio components are limited to ~~safer conservative~~ types of investments as defined in ~~paragraph 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.

## 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.

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

(See amended table in Attachment C)

## 9. 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 DEX Universe Bond Index 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 DEX Universe Bond Index:

DEX Universe All Government Index  
DEX Short Term All Government Index  
DEX Mid Term All Government Index  
DEX Short/Mid All Government Index  
DEX Long Term All Government Index

- Credit Risk – The Investment Manager(s) will minimize credit risk by investing in safer conservative types of instruments. A minimum of 90% of the portfolio's market value is required to carry a DBRS credit rating of AA-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).

## 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.



## 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.

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) <sup>1</sup> Short Term / Long Term Rating	LIMITS PER ISSUER (as a % of total portfolio)
<b>FEDERAL ISSUERS</b>		
Federal & Federally guaranteed	R-1 (high) / AAA	No limit
<b>PROVINCIAL ISSUERS</b>		
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
<b>TOTAL PROVINCES</b>		Maximum 50%
<b>CHARTERED BANKS</b>		
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
<b>TOTAL CHARTERED BANKS</b>		Maximum 50%
<b>B.C. CREDIT UNIONS</b>		
Credit unions with total assets <sup>2</sup> 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 <sup>2</sup> 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	
<b>TOTAL B.C. CREDIT UNIONS</b>		Maximum 30%
<b>POOLED INVESTMENTS</b>		
Pooled funds		Maximum 20%
<b>OTHER SECURITIES</b>		
Municipality, Regional District or Greater Board		Maximum 10%

<sup>1</sup> 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)

<sup>2</sup> Based on latest audited financial statements

## 9. 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 DEX Universe Bond Index 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 DEX Universe Bond Index:

- DEX Universe All Government Index
- DEX Short Term All Government Index
- DEX Mid Term All Government Index
- DEX Short/Mid All Government Index
- DEX 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).