

## Attachment B



<b>RCRS Secondary:</b>	GOV-02	<b>Effective Date:</b>	2007-JAN-08
<b>Policy Number:</b>	COU-197	<b>Amendment Date/s:</b>	2013-JAN-15 FPCOW 2014-OCT-20 COUNCIL
<b>Title:</b>	Investment Policy	<b>Repeal Date:</b>	
<b>Department:</b>	Finance	<b>Approval Date:</b>	2007-JAN-08

### POLICY:

Surplus cash will be invested by the Director of Finance (or delegate) in the best permitted investment available that meets the needs of the City.

### DEFINITIONS:

Banker's Acceptance (BA)	A short-term debt instrument issue by a major corporation, which is guaranteed (endorsed) by a financial institution. It is sold at a discount, with issue periods of between 30 and 365 days, and in face value multiples of \$100,000.
Bond	An IOU from the borrower to the lender. It refers to any interest-bearing government or corporate security that obligates the issuer to pay a particular sum of money at specified intervals, and to repay the principal amount of the loan upon maturity. A secured bond is backed by collateral that may be sold by the bondholder if the bond issuer fails to pay interest and principal as due. A debenture or unsecured bond is not backed by any specific collateral.
Callable Securities	Securities redeemable by the issuer prior to the scheduled maturity date.
Central Depository for Securities (CDS)	A national clearing house for securities trading owned by the major financial institutions, investment dealers and trust companies. CDS is regulated directly by the Provincial Securities Commissions and indirectly through the Federal Regulations of Financial Institutions. It manages the recording and clearing of the Canadian stocks, bonds, and coupons on a book basis. The physical securities are stored in the values of CDS and the Bank of Canada.
Collateral	Assets pledged to a lender as security for a loan.
Delivery Versus Payment	There are two methods of delivery of securities: delivery versus payment; and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.
Diversification	Dividing investment Portfolio among a variety of securities offering independent returns.
Intermediate Fund (MFA)	The market in which fixed income and money market instruments (treasury bills, commercial paper, banker's acceptance, etc.) that have an investment horizon of six to twenty-four months are traded. The performance objective of the fund manager is to achieve a total return of 30 basis points over the one year Canada Treasury Bills, net of expenses.

Internally Financed Projects	Where funds are received for a specific purpose (i.e. Equipment Replacement Fund) but the money is not immediately needed. The City may use the funds to finance a capital project and charge interest at the same rate as the Municipal Finance Authority borrowing rate.
Liquidity	A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.
Market Value	The price at which a security is trading and could presumably be purchased or sold.
Maturity	The date upon which the principal or stated value of an investment becomes due and payable.
Money Market (MFA)	The market in which short-term (one year or less) debt instruments (treasury bills, commercial paper, banker's acceptances, etc.) are issued and traded. The performance objective of the fund manager is to exceed the Scotia McLeod 91 day Treasury Bill Index by 15 basis points, net of expenses.
Portfolio	Collection of securities held by an investor.
Rating	Evaluation of the likelihood of default by a security issuer. Canada Bond Rating Service and Dominion Bond Rating Service are the primary bond and money market security rating agencies in Canada. Standard and Poors, and Moody's Investor Service are American bond rating firms that also rate Canadian issuer.
Safekeeping	A service to customers rendered by financial institutions for a fee, whereby securities and valuables are held in the financial institution's vault for protection.
Yield	The rate of annual income return on an investment, expressed as a percentage. (a) COUPON YIELD is the rate of annual payments to the lender expressed as a percentage of the par value of the security. (b) YIELD TO MATURITY is the interest rate that will make the present value of future cash flows from a security equal to the current price or market value of the security.

## REASON FOR POLICY:

To establish policy for the investment portfolio that meets the statutory requirements of the *Community Charter*.

To define the performance objectives of the investment portfolio. The City maintains sufficient short term liquid assets to enable it to meet its annual cash flow requirements. Due to the uncertain nature of future expenses, the portfolio focuses on high quality, liquid securities. The objectives, in order of priority, are:

- Quality (safety)
- Liquidity
- Return

## **AUTHORITY TO ACT:**

The City delegates the management of the Portfolio to staff and agents. The staff delegates include:

- Director of Finance
- Manager, Accounting Services ("The Manager")

The agents include:

- Custodial Broker
- Authorized Investment Dealers and Institutions

Portfolio management responsibilities have been allocated as follows:

The staff delegates will:

- calculate the rates of return on the entire Portfolio
- review the investment policy at least annually and make recommendations to City Council for any changes considered appropriate
- select investment dealers and institutions (the "Brokers") to assist the Manager in meeting performance objectives for the Portfolio
- review the Portfolio's performance on a regular basis and provide reports to City Council
- be responsible for the delegation of any responsibility not specifically mentioned in this Policy

The Manager will:

- select specific investments for purchase that reflect the quality, liquidity and diversification objectives of the City
- seek to maximize the investment return on the Portfolio, after ensuring that the foregoing liquidity and quality requirements have been satisfied
- manage the securities held by the Portfolio in accordance with this Policy and applicable legislation. The staff delegates may from time to time engage consultants or other advisors to assist them in fulfilling their responsibilities

The Custodial Broker(s) will:

- provide the Manager with 15 business days advance notice of upcoming maturities
- provide the Manager with monthly, written reports of investment performance results
- provide custody of the Portfolio investments and maintain records of all transactions
- provide the Manager with monthly portfolio statements of the Portfolio's holdings and of transactions over the period

## **PROCEDURE:**

### **Authorized Investment Dealers and Institutions:**

The Director or delegate will maintain a list of financial institutions and investment dealers authorized to provide investment services. The investment dealers will provide the Manager with the credit quality rating of each security at the time of purchase.

### **Permitted and Prohibited Investments:**

The following are the investments permitted in the Portfolio:

1. Eligible Securities as defined in Section 183 of the *Community Charter*, SBC, Chapter 26, 2003 as amended.

2. Investments in internally financed City of Nanaimo projects (an example would be a local improvement project that the City finances rather than borrowing from the Municipal Finance Authority (MFA).
3. All investments must be denominated in Canadian dollars.

For clarity, investments in shares, warrants, or other equities, convertible debt securities, derivatives, swaps, options or futures are prohibited, and all investment categories that are not explicitly permitted are prohibited. All investments will be held in the name of the City of Nanaimo.

### **Investment Performance Objectives:**

The City must maintain adequate liquid assets to meet ongoing expenses. The City also desires to preserve and enhance the “real” value of invested capital. That is, the City’s Portfolio should earn a rate of return that is greater than the rate of inflation. A supplementary objective, taking into account the foregoing objectives, is to maximize the return of the total Portfolio.

Based upon the length of the investment term, the investment performance objective for the Portfolio is to match or exceed the MFA Intermediate Fund and Money Market Fund performance objectives as defined in Appendix A.

### **Investment Constraints:**

The primary constraints relate to maintaining the liquidity of the portfolio and safety of invested capital.

1. All securities held in the portfolio shall have a maturity of ten years or less. It is understood that the majority of assets will be invested in securities with a maturity considerable shorter than this ten year maximum. Overall, the total portfolio shall have an average term to maturity of no greater than three years.
2. Overall, securities in the total portfolio shall have an average quality rating of at least AA.
3. The quality rating of any security will be established at the time of acquisition of the security. In the case where the security is rated by more than one of three agencies listed, the lowest ratings will apply. Any securities acquired shall have a rating of at least “A” as defined by the following ratings agencies: Moody’s, S&P (Standard and Poor’s)/CBRS (Canadian Bond Rating Service) or DBRS (Dominion Bond Rating Service). A designated rating shall include all sub-classifications. For instance, an “A” rating by S&P/CBRS shall include “A-“, “A”, and “A+”.
4. For guidance on the rating of investments the deemed rating of any such security will be established, at the time of acquisition of the security of Portfolio, as follows:

	AAA	AA	A
S&P	A1+	A1	A1-
Moody’s	P1 (Aaa)	P1 (Aa)	P1 (A)
DBRS	R1 (High)	R1 (Mid)	R1 (Low)
Cash	X		
MFA	X		
Fully-Insured Credit Unions	Rating of the Province that guarantees the deposit will be used.		

1. Registered under the Credit Unions and Caisses Populaires Act
2. Guaranteed 100% by Provincial deposit insurance programs such as The Credit Union Deposit Insurance Corporation ([www.cudicbc.ca/](http://www.cudicbc.ca/)) or the Credit Union Deposit Guarantee Corporation (<http://www.cudgc.ab.ca>)

5. The limit of the portfolio's investments in any single issuer of securities will be determined by considering a combination of the independent rating agencies classification and the type of the financial institution. The limit will not apply to cash or cash equivalent investments in the Government of Canada, the MFA or any of the five major Canadian banks, if that bank has been awarded the contract for the banking services of the City. The following financial institutions shall have specific limits:

	Investment Limit	Letter of Credit Limit
All other Credit Unions that are not Fully-Insured	\$nil	\$2,000,000 per institution (total for all other credit unions not to exceed \$6,000,000)

6. A quarterly review of the portfolio will be undertaken to make sure investments meet the requirements of this policy. If any security receives a credit downgrade while it is held in the portfolio, the Manager, shall use its best judgment to determine whether the rating is likely to be restored within a reasonable period of time.
  - If so, the Manager may authorize the Broker to retain the investment.
  - If not, the Manager shall take all reasonable steps to liquidate the investment in an orderly fashion with due regard to price and liquidity constraints.

**Other Constraints:**

1. The Portfolio shall not borrow funds to acquire securities or otherwise deal in margin trading.
2. No investments will be made in instruments that provide for reduced rates to the investor based on increasing market rates.
3. Where practical, a minimum of three quotations will be obtained each time the City purchases or sells securities. *Exception:* occasionally offerings of value may require immediate action. Under such circumstances, competitive bids may not be obtained provided that value can be substantiated by market data information services.
4. Letters of Credit (LOC) acceptance totals will follow the portfolio investment limits unless specific limits have been defined in Investment Constraints Section 5.

**RELATED DOCUMENTS:**

N/A

**REPEAL or AMENDMENT:**

N/A