

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON MAY 25, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2015 INVESTMENT REPORT

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer;

1. The 2015 Investment Report **BE RECEIVED** for information; and
2. The attached proposed by-law (Appendix "B") to amend Schedule "A", Council Policy 8(12) entitled "Investment Policy", **BE INTRODUCED** at the Municipal Council meeting on May 31, 2016, to revise section 3.0 Delegation of Authority and Authorization to include Director of Financial Services.

BACKGROUND

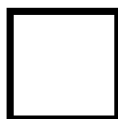
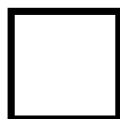
As outlined in Ontario Regulation 438/97, the City of London (the "City") is required to provide an annual investment report to Council. The report, at a minimum, shall contain the following;

- a) a statement about the performance of the portfolio of investments during the period covered by the report;
- b) a description of the estimated proportion of the total investments that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- c) a statement by the Treasurer as to whether or not, in his opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
- e) such other information that Council may require or that, in the opinion of the Treasurer, should be included.

This report meets the above requirements.

Portfolio Balance

In 2015, the City maintained a monthly average investment portfolio balance of \$752 million (2014, \$617 million), consisting of cash and investments in securities prescribed under Ontario Regulation 438/97. As at December 31, 2015, the City's investment portfolio included over 200 investment securities, primarily government bonds, corporate bonds, and GICs. A summary of the City's investment portfolio at year-end is attached as **APPENDIX A**.



Investment Income

In 2015, the City earned a total income of approximately \$12.0 million (\$10.7 million in 2014) from investments of which \$9.0 million (\$7.9 million in 2014) was earned from reserve fund investments and \$3.0 million (\$2.8 million in 2014) was earned from general fund investments.

In accordance with the *Municipal Act, 2001* (the “Act”), interest and capital gains earned on reserve fund investments are allocated to all reserve funds on a prorated basis and are used for the purpose for which the reserve fund was created. Investment income earned from the general fund is allocated to general revenues, which contributes to offsetting the amount of taxes levied.

Market Summary for 2015

The Bank of Canada Overnight Target Rate began 2015 at 1.0%. With large declines in oil prices weighing significantly on the Canadian economy, the Bank of Canada cut its benchmark rate twice in 2015, landing at 0.50% where it stayed for the remainder of the year.

The benchmark rate cuts resulted in the City’s interest rates on bank and high interest accounts lowering by 0.30% and bond yields declining to historically low levels. The table below shows a comparison of Government of Canada benchmark yields from 2015 to 2014.

Benchmark Yield	2015 Average Monthly Yield	2014 Average Monthly Yield
3-month T-Bill	0.50%	0.91%
3-year Gov’t of Canada Bond	0.54%	1.15%
5-year Gov’t of Canada Bond	0.83%	1.56%

(Source: Bank of Canada, Data and Statistics)

Investment Strategy

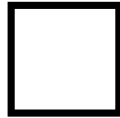
The City’s overall investment strategy is to invest public funds in a manner that prioritizes security and liquidity of principal over attaining higher investment returns. The investment strategy in 2015 continued to focus on building a balanced portfolio relative to short-term, medium-term and long-term investment instruments.

Below is a comparison of the City’s portfolio to the policy targets.

Classification	Maturity	% of Portfolio (Dec 31, 2015)	% of Portfolio (Dec 31, 2014)	Target
Cash & Short-Term	Less than 1 year	49%	60%	50%
Medium-term	1 – 5 years	35%	24%	25%
Long-term	More than 5 years	16%	16%	25%

Throughout 2015, the City purchased investments of \$181 million to move the portfolio toward the targets. As the City worked toward the targets, consideration was given to changing market conditions, including the decline in bond yields. In response to bond yields trading at historically low levels the City, as part of the \$181 million, purchased \$66 million of GICs to achieve higher yields.

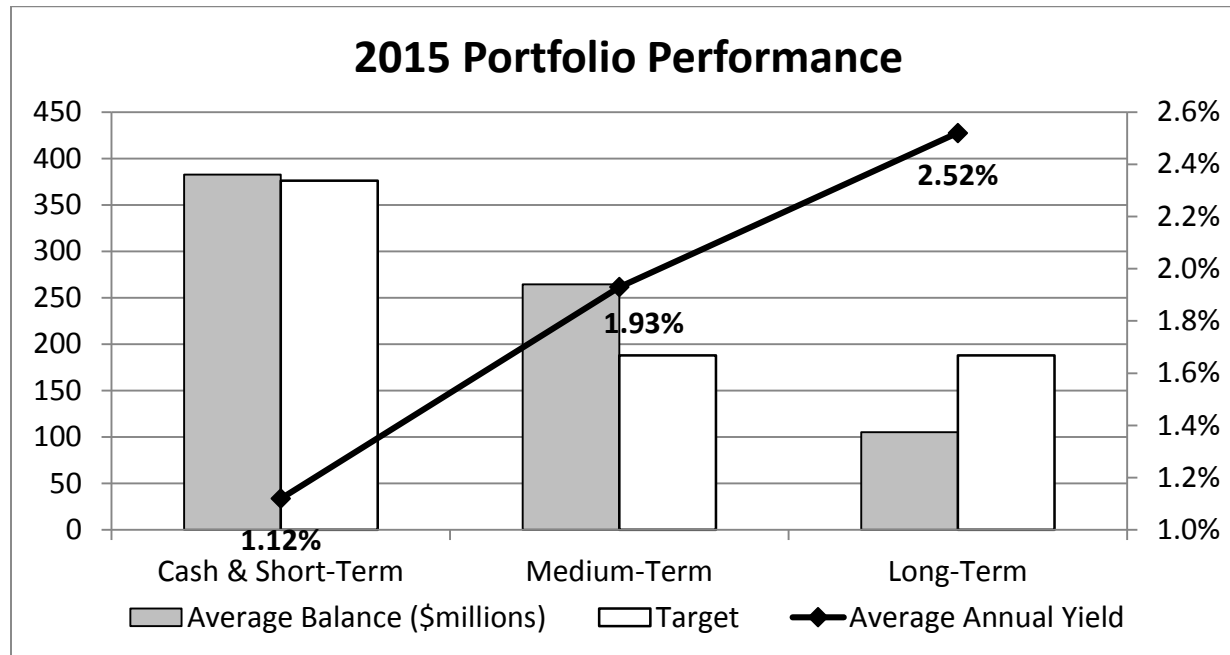
Of the \$181 million invested throughout 2015, \$130 million was invested in externally managed portfolios. Scotia Institutional Asset Management (Scotia), RBC Global Asset Management (RBC GAM) and RBC Dominion Securities (RBC DS) manage the City’s external portfolios. The external portfolios with RBC GAM and RBC DS were added in 2015. The management of these portfolios allows the City to benefit from the services provided by sophisticated investment teams, which includes frequent monitoring and trading, diversifying funds, and anticipating interest rate changes.



The remaining \$51 million of the \$181 million was invested internally through investment brokers. The City's internally managed portfolio utilizes the buy and hold strategy, buying investment products from investment brokers at varying maturity dates. This strategy ensures a steady stream of cash flows will be available to match cash demands and minimizes interest rate risk by smoothing fluctuations in the market over time.

Performance of Portfolio Investments

The chart below shows a breakdown of the average annual yields for 2015, as well as the investment portfolio balance in comparison to policy targets.



Cash & Short-Term

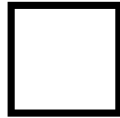
In 2015, the City had an average cash balance of \$382 million earning interest at an average rate of 1.12%. The cash & short-term target is 50% and aims to accommodate cash fluctuations during the year related to the timing and collection of property taxes along with disbursements for expenditures. The yields on short-term investments (less than 1 year) were lower than interest earned in the bank resulting in limited short-term products available to be purchased during the year. The Bank of Canada Overnight Target Rate averaged 0.65%, while the average yield on 3-month Treasury Bills was 0.50% (Bank of Canada, Data and Statistics).

Medium-Term

In 2015, the City's medium-term investment portfolio had an average balance of \$265 million (\$165 million externally managed and \$100 million internally managed.). The average yield on the City's medium-term investments for 2015 was 1.93% (net of fees).

Externally Managed

The City's medium-term bond portfolios are compared to the FTSE TMX Canada Short-Term Government Bond Index. The FTSE TMX Canada benchmarks provide widely used performance standards for Canadian fixed income investments. It should be noted that benchmarks are used as a reference to give an approximate basis of comparison of how the City's portfolio performed. Not all bonds within the indices would meet the City's guidelines in terms of credit quality, liquidity, and term to maturity, and not all of the City's portfolios are designed with the same risk exposures or to track the performance of the benchmark.



The City's medium-term bond portfolios with Scotia and RBC GAM had a weighted average yield of 1.72% (net of fees) in 2015. The portfolio with Scotia was relatively neutral to the index over 2015, outperforming the benchmark by 0.01%, while the portfolio with RBC GAM underperformed against the benchmark by 0.21%.

In October 2015, the City opened a medium-term portfolio with RBC DS to invest in secondary GICs to take advantage of higher yields given that bonds were trading at historically low levels. The City's portfolio with RBC DS had a yield of 1.95% (net of fees) as at December 31, 2015.

Internally Managed

For the purposes of performance evaluation, the internally managed medium-term portfolio is defined as investments with an original maturity of 1 – 5 years. The City's internally managed investments had an average yield of 2.30%. The portfolio was comprised mainly of GICs with higher yields (in comparison to bonds). The remainder of the portfolio includes bonds purchased in 2011, when yields were higher as compared to the when the externally managed portfolios were opened (2013 and 2015).

Long-Term

In 2015, the City's long-term investment portfolio with Scotia had an average balance of \$105 million. This portfolio is compared to the FTSE TMX Canada Short/Mid All Government Blend Bond Index, which is similar in duration and composition to the City's portfolio. The City's long-term portfolio underperformed against the benchmark by 0.29%. The City's long-term portfolio had an average yield of 2.52% (net of fees) in 2015.

Eligible Investments (Statement of Compliance)

The Act stipulates that a municipality may invest in securities prescribed under Ontario Regulation 438/97. All investments meet the eligibility requirements as prescribed by Ontario Regulation 438/97 and were made in accordance with the investment policies and goals adopted by the City.

Investment in Own- Securities

Ontario Regulation 438/97 requires that the City report the estimated proportion of total investments that are invested in its own long-term and short-term securities to the total investments held by the municipality. In 2015, the City did not hold or purchase any of its own securities, reflecting no change in proportion of own securities to total investments from the previous year's report.

Looking Ahead

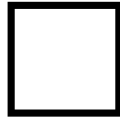
After fighting to keep its head above water in 2015, Canada's economy is poised to return to a more solid growth path this year. The Bank of Canada Overnight Target Rate is forecasted to remain unchanged at 0.50% for 2016 (TD Quarterly Economic Forecast, March 23, 2016).

As directed by the City's Investment Policy, the City's overall investment strategy will continue to focus on maximizing investment returns in a manner that first prioritizes security and liquidity. The 2016 strategy will continue to focus on reaching and maintaining the City's policy term targets.

Amendment to Investment Policy 8(12)

Section 3.0 of the attached investment policy (Schedule A) has been revised to include the Director of Financial Services as an authorized signer for investment transactions reflecting the City’s current organizational structure and signing authority.

PREPARED BY:	PREPARED BY:
Rick Lamon Manager of Modelling, Forecasting & Systems Control	Annette Ripepi Manager, Accounting and Reporting
REVIEWED BY:	CONCURRED BY
Jason Senese Manager, Financial Planning & Policy	Larry Palarchio Director, Financial Planning & Policy
RECOMMENDED BY:	
Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer	


APPENDIX A - City of London Investment Portfolio as at December 31, 2015

Instrument	Book Value	Coupon Rate	Maturity Date (DD-MM-YR)
Cash Held in the Bank & Short-Term Investments:			
<u>Internally Managed</u>			
General Cash ^(A)	\$ 135,420,705		
Reserve Fund Cash ^(A)	164,826,862		
Bank of Nova Scotia GIC	595,801	3.15%	21-Mar-16
HSBC Bank Canada GIC	5,000,000	1.56%	04-Apr-16
HSBC Bank Canada GIC	1,000,000	1.70%	18-Apr-16
HSBC Bank Canada GIC	1,000,000	1.70%	20-Apr-16
TD Mortgage Corp. GIC	2,332,539	1.90%	10-May-16
Royal Bank GIC	378,895	1.80%	17-May-16
Bank of Montreal Residual	8,771,700	2.72%	08-Jul-16
Bank of Monreal GIC	3,000,000	2.01%	08-Aug-16
Bank of Monreal GIC	6,000,000	2.10%	06-Sep-16
Bank of Montreal Trust GIC	6,000,000	2.10%	06-Sep-16
Royal Bank GIC	2,285,779	2.15%	03-Oct-16
CIBC Term Deposit	6,000,000	2.09%	17-Oct-16
Bank of Monreal GIC	2,500,000	1.76%	28-Nov-16
Bank of Nova Scotia GIC	3,992,000	2.01%	19-Dec-16
Total Cash & Short-Term Investments	\$ 349,104,281		
Medium-Term Investments:			
<u>Internally Managed</u>			
Bank of Nova Scotia GIC	\$ 2,503,553	1.45%	23-Feb-17
Bank of Nova Scotia GIC	1,637,731	1.90%	21-Mar-17
B2B Bank GIC	10,000,000	1.94%	03-Apr-17
Royal Bank GIC	705,207	2.60%	08-May-17
Royal Bank GIC	3,015,692	2.40%	18-Jul-17
Royal Bank GIC	3,000,000	2.31%	08-Aug-17
Bank of Monreal GIC	2,000,000	2.26%	05-Sep-17
Bank of Montreal Residual	7,760,000	3.82%	26-Sep-17
CIBC Term Deposit	3,000,000	2.19%	15-Oct-17
Laurentian Bank GIC	2,500,000	2.07%	27-Nov-17
Bank of Nova Scotia GIC	1,992,000	2.13%	18-Dec-17
Royal Bank GIC	3,261,160	2.35%	12-Feb-18
Bank of Nova Scotia GIC	2,503,770	1.55%	23-Feb-18
National Bank of Canada GIC	2,015,765	2.40%	02-Apr-18
Bank of Monreal GIC	6,000,000	2.36%	27-Oct-20
National Bank of Canada GIC	1,500,000	2.52%	26-Nov-20
Total Internally Managed (Medium-Term)	53,394,878		
<u>Externally Managed</u> ^(B)			
Scotia Institutional Asset Mgmt Portfolio	82,582,519		
RBC Global Asset Mgmt Portfolio	96,062,200		
RBC Dominion Securities Portfolio	15,000,000		
Total Externally Managed (Medium-Term)	193,644,719		
Total Medium-Term Investments	\$ 247,039,597		
Long-Term Investments:			
<u>Externally Managed</u> ^(B)			
Scotia Institutional Asset Mgmt Portfolio	115,111,627		
Total Long-Term Investments	\$ 115,111,627		
Total Investment Portfolio	\$ 711,255,505		
Notes: ^(A) Cash balances as per bank accounts as at December 31, 2015. ^(B) Externally managed portfolios primarily comprised of gov't/corporate bonds & GICs. Cash and investment balances, unaudited. Total Internally Managed: \$402,499,159 Total Externally Managed: \$308,756,346			

APPENDIX “B”

Bill No.
2016

By-law No. A.-

A by-law to amend Council Policy 8(12) entitled
“Investment Policy”.

WHEREAS the Municipal Council of The Corporation of the City of London wishes to amend Council Policy 8(12) Investment Policy;

AND WHEREAS subsection 5(3) of the *Municipal Act, 2001*, c.25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001* provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS section 7 of Ontario Regulation 438/97, as amended, enacted under section 418(6) of the *Municipal Act, 2001*, S.O. 2001, c.25 as amended, provides that The Corporation of the City of London shall adopt a statement of its investment policies and goals;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The attached Investment Policy Schedule “A”, which amends section 3.0 Delegation of Authority and Authorization to include Director of Financial Services, is hereby adopted.
2. This by-law comes into force and effect on May 31, 2016.

PASSED in Open Council on May 31, 2016.

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading – May 31, 2016
Second Reading – May 31, 2016
Third Reading – May 31, 2016

SCHEDULE “A”

Investment Policy

1.0 POLICY STATEMENT AND PURPOSE

The Corporation of the City of London (the City) shall invest public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the City and conforming to legislation governing the investment of public funds.

The purpose of this investment policy is to ensure integrity of the investment management process. The objective of this investment policy is to maximize investment income at minimal risk to capital. Accordingly, emphasis on investments is placed on security first, liquidity second and overall yields third.

2.0 SCOPE

This investment policy shall govern the investment activities of the City's General, Capital and Reserve Funds as well as Trust Funds. This policy applies to all investments made by the City on its own behalf and on behalf of its agencies, boards and commissions and any new funds created by the City.

3.0 STANDARD OF CARE

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Delegation of Authority and Authorization

The City Treasurer shall have overall responsibility for the prudent investment of the City's investment portfolio. The City Treasurer shall have the authority to implement the investment program and establish procedures consistent with this policy. Such procedures shall include the explicit delegation of the authority needed to complete investment transactions however the City Treasurer shall remain responsible for ensuring that the investments are compliant with regulations and this policy. No person may engage in an investment transaction except as provided under the terms of this policy.

The City Treasurer shall be authorized to enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities in a manner that conforms to the *Municipal Act, 2001* and the City's policy manual.

Transfer of funds for investment transactions shall be authorized by two of the individuals listed below, one of whom must be City Treasurer or Deputy City Treasurer.

- 1. City Treasurer
- 2. Deputy City Treasurer
- 3. Director of Financial Planning & Policy
- 4. Director of Financial Services
- 5. Manager of Financial Planning & Policy
- 6. Division Manager – Taxation & Revenue

4.0 OBJECTIVES

The primary objectives of this investment policy, in priority order, are as follows:

- 1. Adherence to statutory requirements;
- 2. Preservation of capital;
- 3. Maintenance of liquidity; and
- 4. Competitive rate of return.

4.0 OBJECTIVES - continued

The investment portfolio is comprised of:

- Operating and Capital cash flow balances;
- Reserves;
- Reserve funds; and
- Trust Funds.

1. Adherence to Statutory Requirements

All investment activities shall be governed by the Ontario Municipal Act, 2001 as amended. Investments, unless further limited by Council, shall be those eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

2. Preservation of Capital (Minimization of Credit Risk)

Meeting this objective requires the adoption of a defensive policy to minimize the risk of incurring a capital loss and of preserving the value of the invested principal. As such, this risk shall be mitigated by investing in properly rated financial instruments in accordance with applicable legislation, by limiting the types of investments to a maximum percentage of the total portfolio and being mindful of the amount invested within individual institutions.

3. Maintenance of Liquidity

The investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing. The portfolio shall be structured to maintain a proportionate ratio of short, medium and long- term maturities to meet the funding requirements of the City. The term liquidity implies a high degree of marketability and a high level of price stability. Important liquidity considerations are a reliable forecast of the timing of the requirement of funds, a contingency to cover the possibility of unplanned requirement of funds and an expectation of reliable secondary marketability prior to maturity.

4. Competitive Rate of Return (Overall Yield)

Investment yields shall be sought within the boundaries set by the three foregoing objectives and then consideration shall be given to the following guidance;

- Higher yields are best obtained by taking advantage of the interest rate curve of the capital market, which normally yields higher rates of return for longer term investments;
- Yields will also fluctuate by institution as per individual credit ratings (greater risk confirmed by a lower credit rating) and by the type of capital instrument. For example, an instrument of a small trust company would in many cases have a slightly higher yield than a major bank;
- A lower credit rating generally makes an investment more difficult to sell on the secondary market and therefore less liquid; and
- Capital instruments that are non-callable will have a lower yield than instruments which are callable, but the call feature does not necessarily compromise marketability.

5.0 INVESTMENT STRATEGY

Diversification

To minimize credit risk and to maintain liquidity of the investment portfolio, investment diversification shall be guided by the following:

1. Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
2. Limiting investment in securities to those that have higher credit ratings;
3. Investing in securities with varying maturities; and
4. Investing in securities which have an active secondary market.

5.0 INVESTMENT STRATEGY - continued

Diversification - continued

Investment Type Limitations

Cash held in the bank (excluding trust funds), i.e. one day maturity, shall be no less than what is deemed necessary to meet daily operating and capital requirements of the City. The current guideline is approximately \$50 million in general funds and \$150 million in reserve funds. This guideline shall be evaluated on an annual basis and this policy shall be updated as necessary to reflect any changes.

The total investment in securities issued by governments (federal, provincial or municipal) and Schedule I banks shall be no less than 75% of the total investment portfolio (excluding cash held in the bank and trust funds).

The remaining portfolio may be invested in any other securities which are deemed eligible under O.Reg 438/97 however no more than 10% of the total investment portfolio (excluding cash held in the bank and trust funds) shall be invested in eligible asset-backed securities and eligible commercial paper. Also, no more than 5% of the total investment portfolio (excluding cash held in the bank and trust funds) shall be invested in eligible pooled equity funds (i.e. One Investment Program Equity Portfolio).

These portfolio percentage limitations apply at the time an investment is made and exclude trust fund investments, which are subject to trust fund investment requirements. Investments held in a professionally managed portfolio are also excluded as diversification is subject to the judgement of the investment manager.

Investment Term Limitations

For the purpose of this policy, a short-term investment is defined as maturing in less than one year, medium-term as maturing between one and five years and long-term as maturing in greater than five years. In general, professionally managed portfolios are deemed to be long-term investments, as it is likely that the intention of Administration is to invest funds that are not required for the next five years. For the purposes of this section, professionally managed portfolios shall be considered long-term investments, unless it is specifically known otherwise. The total investment portfolio in calculating term limitations shall exclude trust funds. The term limitations for the portfolio are as follows:

- Short-term – minimum 50% of total investment portfolio;
- Medium-term – maximum 25% of total investment portfolio; and
- Long-term - maximum 25% of total investment portfolio.

The portfolio percentage limitations shall apply at the time the investment is made. At specific times the portfolio limitations may not be compliant to the policy for a short time for various reasons, for example the timing of maturities. Prior to any changes to the portfolio based on term limitations, the City Treasurer may, at his discretion, retain the investment(s), that contravenes the portfolio limitations provided that such action is not contrary to the Municipal Act, 2001.

Type and term limitations shall be reviewed annually by the City Treasurer and this policy shall be amended as necessary to minimize the City's exposure to changes in the financial marketplace after giving consideration to the available financial information.

Trust fund portfolio limitations are subject to the terms and conditions of the agreement to which the fund applies. Absent specific wording, compliance with the stated portfolio limitations is required, and should be considered separately from City of London funds.

Buy and Hold

To achieve the objectives noted in section four, internally managed funds shall, for the most part, follow the buy and hold strategy. As noted above, higher yields are best obtained by taking advantage of the interest rate curve of the capital market which normally yields higher rates of return for longer term investments. By purchasing securities at varying maturity dates and holding the investments to term the interest rate risk is minimized, liquidity is maintained and capital is preserved. To be successful with the buy and hold strategy, matching cash requirements to investment terms is a key element and requires a solid cash flow forecast.

5.0 INVESTMENT STRATEGY - continued

Buy and Hold - continued

Some municipalities actively trade investments rather than holding to term. This 'active' investment strategy can produce a modest improvement in yield, but to be successful a large amount of excess cash and sophisticated investment expertise is required. Professionally managed funds charge a fee (usually basis points deducted from the yield) but it is anticipated the performance of the fund will exceed the cost of administration. Nevertheless, performance of professionally managed funds shall be regularly compared to industry benchmarks and to the result that might be achieved using the internally managed approach.

Performance Standards

The investment portfolio shall be managed in accordance with parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles proportionate with investment risk constraints and the cash flow needs of the City.

The performances of investments shall be measured using multiple benchmarks and performance indicators. The baseline yield for investments is the interest rate earned by the City on cash held in its bank account. Then, investment yields can be compared to Government of Canada Treasury Bills and Benchmark Bond Yields. Furthermore, prime interest rates and other applicable market rates, such as Banker's Acceptance can be used to provide useful benchmarks with consideration to limitations attributable to the Municipal Act, 2001.

Internal Borrowing

In developing the cash requirements for the year, sufficient cash shall be available to fund capital expenditures. The main cash elements of the operating budget are stable and predictable, e.g. tax revenue and operating expenditures which is established in the budget process. The primary variable in forecasting cash demands is capital spending. Capital spending is supported (temporarily financed) by the General fund prior to securing long-term financing (primarily long-term debentures).

If the General fund does not have sufficient cash to support capital expenditures and operating expenditures during the year, the best option is to borrow from the Reserve Funds on a short-term basis, rather than obtaining external financing. In order for this to occur, the Reserve Funds must have sufficient cash available (i.e. not locked into long-term investments) to support the General Fund through this period. A fair rate of interest shall be applied based on the interest rate paid on funds in the City's consolidated bank account. For the most part the interest charged is going 'from one City pocket to another', but given that some reserve funds are non-rate funded, there is a requirement to pay a fair rate to the reserve funds for 'investing' in the General fund.

Trust Funds

Trust funds by nature must be maintained in a separate account and invested separately. The investment strategy will be dictated by the terms of the trust agreement. In the absence of specific direction, the strategy shall be in compliance with this policy.

Given the variability of capital spending, interest rates, and non-tax revenues, the investment strategy shall be reviewed, at a minimum, on an annual basis. Any changes in the investment strategy shall be reported to Council in the annual investment report and the investment policy shall be amended for the change in strategy.

6.0 REPORTING

The City Treasurer shall provide an annual investment report to Council which includes, at a minimum, the requirements set forth in O. Reg. 438/97. Under the current regulations the investment report shall contain the following:

1. a statement about the performance or the portfolio of investments of the municipality during the period covered by the report;
2. a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
3. a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
4. a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security;
5. such other information that the council may require or that in the opinion of the treasurer, should be included;
6. a statement by the treasurer as to whether any of the investments fall below the standard required for that investment during the period covered by the report; and
7. the details of the proposed use of funds realized in the disposition of an investment for which the City sold as a result of a decline in rating below the standard required by O.Reg. 438/97.

In addition to the annual report, the City Treasurer shall report to Council any investment that is made that is not, in his opinion, consistent with investment policy adopted by the City within thirty days after becoming aware of it.

GLOSSARY OF TERMS

Asset Backed Securities: fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

Basis Point (BPS): a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

Credit Risk: is the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Diversification: a process of investing assets among a range of security types by sector, maturity, and quality rating.

Interest Rate Risk: the risk associated with declines or rises in interest rates that cause an investment in a fixed income security to increase or decrease in value

Liquidity: a measure of an asset's convertibility to cash.

Market Risk: the risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: current market price of a security.

Maturity: the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

One Investment Program: a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O.Reg 438/97. The program consists of Money Market Funds, Bond Funds and Equity Funds. The ONE Fund is operated by LAS (Local Authority Services Ltd., a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario).

GLOSSARY OF TERMS - continued

Qualifying Assets: financial assets, either fixed or revolving, that, by their terms converts into cash, within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

Schedule I Banks: domestic banks that are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Banks: are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Special Purpose Entity: a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.