

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JULY 13, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2019 INVESTMENT REPORT

RECOMMENDATION

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

- a) The 2019 Investment Report, providing a summary of the performance of the City of London's investment portfolio, **BE RECEIVED** for information.
- b) The Investment Policy (attached as Appendix "B") **BE RECEIVED** for information; it being noted that Civic Administration is not recommending any revisions to the policy at this time.

LINK TO THE 2019-2023 STRATEGIC PLAN

Council's 2019-2023 Strategic Plan for the City of London identifies 'Leading in Public Service' as a strategic area of focus. Management of the City of London's investment portfolio in line with its stated objectives supports this area of focus and links to the strategy of maximizing investment returns while adhering to the City's Investment Policy.

BACKGROUND

As outlined in *Ontario Regulation 438/97*, the City Treasurer is required to provide an annual investment report to Municipal 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 their 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;
- e) such other information that Municipal Council may require or that, in the opinion of the treasurer, should be included;
- f) 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,
- g) 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 *Ontario Regulation 438/97*.

This report meets the above requirements.

INVESTMENTS & PERFORMANCE

Portfolio Balance

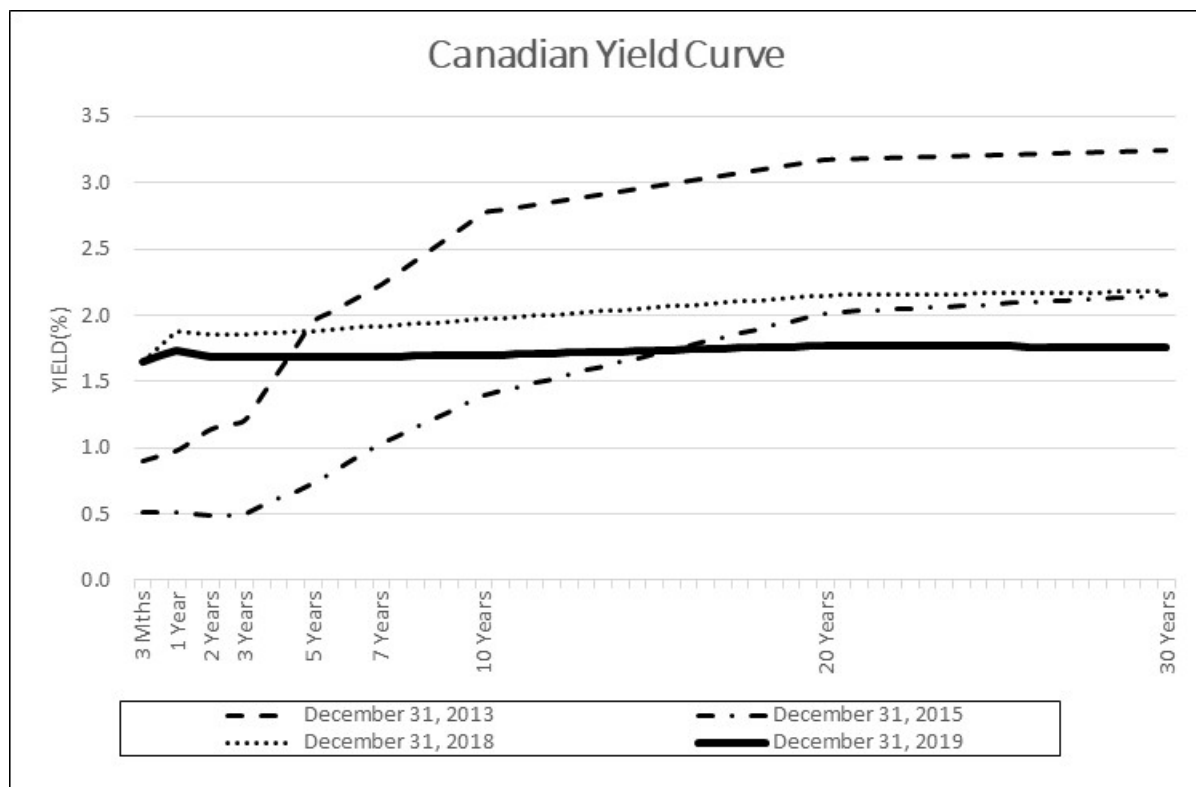
In 2019, the City of London (the “City”) maintained a monthly average investment portfolio balance of \$1,189 million (2018, \$1,024 million), consisting of cash and investments in securities prescribed under *Ontario Regulation 438/97*. As at December 31, 2019, the City’s investment portfolio included government bonds, corporate bonds, ONE Canadian equity fund and guaranteed investment certificates (GICs). A summary of the City’s investment portfolio at year-end is attached as **APPENDIX “A”**. The City’s investment portfolio contains over 400 securities.

Market Summary for 2019

The Bank of Canada maintained its overnight target rate at 1.75% throughout 2019, refraining from delivering rate cuts as it assessed the balance between external risks and domestic resilience. The yield curve remained flat throughout the year, flattening even further than in 2018.

The graph below shows a comparison of the yield curve for four different years. Given this ‘flattening’, generally, there is minimal additional returns for a longer term maturity and higher risk.

Government of Canada Yield Curve



Source: RBC PH&N

Economic conditions are continually monitored by the City and its team of professional portfolio managers to ensure the City’s investment portfolio is adjusted to reflect changing market conditions.

Investment Strategy

As directed by the City’s Investment Policy, 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 City’s strategy includes building a balanced and diversified portfolio relative to short-term, medium-term and long-term investment targets.

In 2019, a review of the Investment Policy was undertaken by staff and the City’s investment term targets, listed as a percentage of the total investment portfolio (approved by Council in July, 2018), were maintained as follows.

Classification	Maturing in	Revised Target (+/- 10%)	Previous Target
Cash & Short-term	Less than one year	40%	50%
Medium-term	One to five years	30%	25%
Long-term	More than five years	30%	25%

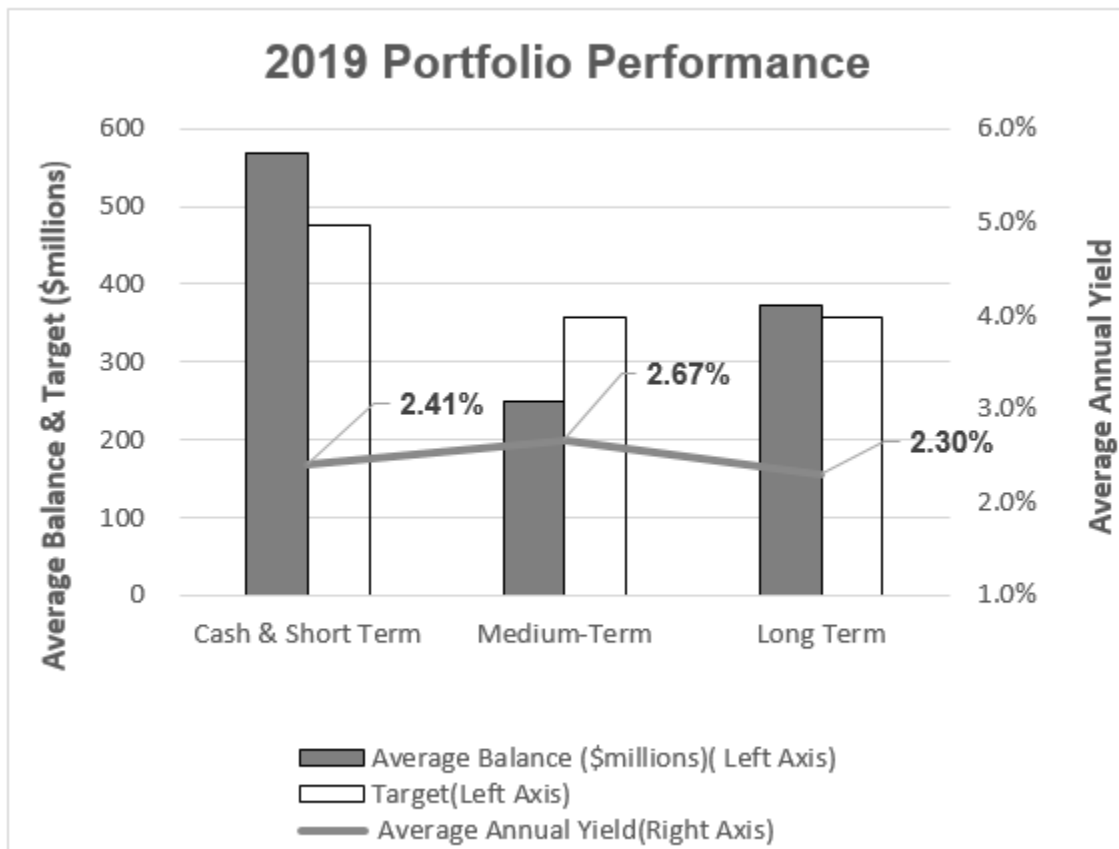
The revised targets were in response to the City's achievement of the previous targets and growth in the City's investment program, allowing the City to increasingly focus on medium and long-term investment management. The City's overall strategy is to move towards the revised targets gradually, maintaining liquidity but remaining flexible to respond to market conditions, such as the 'flattening' yield curve. The City's strategy is to remain in a "defensive" position and more actively pursue the targets when the risk-reward trade-off of longer-term maturities provides adequate compensation for the extra risk of longer-term investments.

Below is a comparison of the City's portfolio to the portfolio targets for 2019.

Classification	Maturing in	Average for 2019	Dec. 31, 2019	Target
Cash & Short-term	Less than one year	48%	46%	40%
Medium-term	One to five years	21%	24%	30%
Long-term	More than five years	31%	30%	30%

Performance of Investments

The chart below shows a breakdown of the average annual yields for 2019, as well as the investment portfolio balance in comparison to policy targets. For the purposes of this report, yield includes interest income and realized gains and losses. Yield does not include unrealized gains and losses (i.e. market value appreciation).



The City's portfolio performance is closely tied to the Bank of Canada's overnight rate given the type of securities and assets it holds. In 2019, Civic Administration rebalanced its portfolio by working with one of its external managers, Scotia Institutional Asset Management, to merge its medium and long-term portfolio into one long-term portfolio to provide flexibility in holdings, react

to market conditions while also updating its benchmark to aid in better yield performance. This resulted in a better performance in the long term portfolio in comparison to 2018 due to the realization of capital gains through the rebalancing. Performance in the medium-term range of the portfolio was also improved compared to 2018 due to the re-investment of maturities at higher rates. Finally, the City's favourable rate on cash holdings resulted in a comparatively strong yield for the cash & short-term investments in the City's portfolio than those in the long-term range. As securities mature from the medium and long-term range, the new securities purchased will reflect current market conditions.

Investment Income

For the purposes of this report, investment income includes interest income and realized gains and losses. In 2019, the City earned total income of approximately \$28.9 million (\$20.4 million in 2018) from investments, of which \$22.3 million (\$14.8 million in 2018) was earned from reserve fund investments and \$6.6 million (\$5.6 million in 2018) was earned from general fund investments.

The increase in investment income in 2019 compared to 2018 is related to the increase in short term interest rates (the Bank of Canada overnight rate was 1.25% at the beginning of 2018 vs. 1.75% throughout 2019), higher cash balances and realized capital gains when the long term portfolio was rebalanced.

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.

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 2018, 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.

ONE CANADIAN EQUITY PORTFOLIO

As Civic Administration works towards diversifying its investment portfolio while looking to maximize returns, the City began investing in equity funds in 2019. As per the current Investment Policy, up to five percent of the total investment portfolio may be invested in eligible pooled equity funds. In accordance with the *Municipal Act, 2001* and without adopting the prudent investor standard, the only allowable investment in equity funds is through the One Investment Program.

The One Investment Program is a professionally managed group of investment funds that is operated by Local Authority Services Ltd [LAS] (a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario). While the program offers a wide range of funds, it is the Pooled Equity fund that the City has invested in. The portfolio manager enlisted for the Pooled Equity fund is Guardian Capital LP, an organization that has been managing institutional assets for over 50 years with over \$20 billion in assets under management. The City's current investments cover off other asset classes such as cash, GICs and bonds.

The One Canadian Equity portfolio's objective is to provide superior long-term investment returns through capital growth and dividend yield by investing in a diversified, conservatively managed portfolio of equity securities issued by Canadian corporations. The fund is denominated in Canadian dollars. Based on the 2019 annual report, the pooled fund's assets amounted to \$391.7 million at year-end.

Equity investments are higher risk than the other asset classes the City currently holds. With this higher risk, there is an expectation of higher returns, although performance is not guaranteed,

including the risk of negative returns. The City has recorded its investment's position at cost and earned income. With new accounting standards coming in the future, adoption of Financial Instruments accounting may introduce more variability in reporting performance due to recording of unrealized gains and losses. Furthermore, it should be noted that past performance is not indicative of or a guarantee of future performance. For example, the 2019 return for the One Investment Canadian Equity Fund was 18.3% (compared to the 22.88% reported for the TSX Composite Index), compared to its 5 year annualized return of 7.5% (compared to the 6.28% return for the TSX Composite Index).

Civic Administration's aim in adding this asset class to the portfolio is to provide diversification. Adding an asset class that behaves differently than the other asset classes in the portfolio can reduce risk to the overall portfolio while increasing the expected return.

Based on historical data, over the long-term, equities will outperform bonds to compensate for their higher risk. The City's equity investment position is intended to be held with a long-term view (greater than five years) with no plan to actively change the position regularly ('buy and hold'). Civic Administration plans to invest up to five percent of the City's investment portfolio (excluding cash) into the fund by the end of 2020 gradually in order to minimize risk exposure, subject to market conditions and available cash resources to invest.

PRUDENT INVESTOR UPDATE

On March 1, 2018, amendments were made to the *Municipal Act, 2001* and *Ontario Regulation 438/97*, granting eligible municipalities access to invest in any security in accordance with the prudent investor standard and other requirements set out in the regulation.

Amendments were also made to the prescribed list of eligible investment securities for municipalities that do not wish to invest or are not eligible to invest under the new prudent investor standard. The prescribed list of eligible securities consists primarily of government bonds, bank issued debt, and corporate bonds. The regulation also permits investment in Canadian corporate shares if the investment is made through the One Investment Program. Effective January 1, 2019, eligible municipalities have the option to continue under the updated prescribed list or move to the prudent investor standard.

Civic Administration has continued to perform due diligence and evaluation of implications and requirements of this standard over the past year including monitoring what actions other municipalities are taking. Civic Administration has also been participating in a treasury and investments working group with other Ontario municipalities, exploring other potential future investment options for municipalities. The group is working towards the goal of meeting with representatives from the Municipal Finance Branch of the Ministry of Municipal Affairs and the Ontario Financing Authority to discuss potential changes to the Act. Two specific changes, amongst others, are consideration of an Outsourced Chief Investment Officer model option in the prudent investment standard and also expansion of the prescribed list of eligible investments within the current Act.

Adoption of the prudent investor standard as currently written is irrevocable. As a result, Civic Administration is not recommending adopting the prudent investor standard at this time, pending the possibility of other investment options in consultation with the aforementioned working group. Focus will continue to be on optimizing the investment portfolio and its holdings within the current framework and the City's investment policy.

Civic Administration will continue to provide regular updates on any developments with respect to the prudent investor standard and any other regulatory changes affecting the City's investment portfolio.

LOOKING AHEAD – IMPACT OF COVID-19

While rates remained stable in 2019, the tone has changed significantly in 2020 due to evolving market conditions as a result of the COVID-19 pandemic. The TSX Composite Index suffered a decline of approximately 35% from late February through mid-March, although has since recovered more than half of that loss as of the time of writing. There have been three rate cuts by the Bank of Canada in 2020 and the pandemic-induced pressure on the economy is putting additional downward pressure on yields. Although the Bank of Canada has stated that further rate cuts are not to be expected in the immediate future, the Canadian yield curve continues to remain relatively flat.

In response to these challenging market conditions and the financial impacts of COVID-19, the City's near term investment strategy is to continue to focus on maintaining liquidity and a healthy cash position. This will entail the use of a mixture of various strategies inclusive of allowing investments to mature without reinvesting, not making investment purchases per our normal maturity ladder and deferring some additional investments. As a result, Civic Administration is temporarily deviating, as necessary, from the investment term targets in the approved Investment Policy – noting that the Policy provides authority for the City Treasurer to do so – in order to maintain sufficient liquidity to mitigate the financial impacts of COVID-19 on the Corporation. Generally, this may involve maintaining larger allocations to cash & short-term investment products to provide a buffer to support the City's day-to-day cash flow needs.

Civic Administration continues to monitor available rates compared to interest earned on bank balances given the uncertain rate environment and will invest strategically should opportunities arise to maximize yield while maintaining sufficient liquidity to meet the City's ongoing needs.

CONCLUSION

The City's investment portfolio remains compliant with the *Municipal Act, 2001* and the City's Investment Policy. Investments are continuing to be made to earn competitive returns while ensuring capital preservation and liquidity requirements are met.

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APPENDIX "A"

CITY OF LONDON INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2019

Product	Avg. Term to Maturity (Years)	Total Book Value (General + Reserve Fund)	General Fund Book Value	Reserve Fund Book Value	% of Portfolio
Cash & Short-Term (Maturing in less than 1 year):					
<u>Internally Managed:</u>					
Cash (Note A)	0.0	412,109,211	199,869,700	212,239,511	34.0%
SCOTIA - High Interest Savings Account	0.1	67,200,000	19,000,000	48,200,000	5.5%
Internally Managed GICs	0.5	82,765,583	21,000,000	61,765,583	6.8%
Total Cash and Short-Term		562,074,794	239,869,700	322,205,094	46.3%
Medium-Term (Maturing in 1 - 5 years):					
<u>Internally Managed GICs and Bonds</u>					
	3.1	229,352,090	-	229,352,090	18.9%
<u>Externally Managed:</u>					
RBC Dominion Securities	1.1	57,666,089	-	57,666,089	4.8%
Total Externally Managed (Medium Term)		57,666,089	-	57,666,089	4.8%
Total Medium-Term		287,018,179	-	287,018,179	23.7%
Long-Term (Maturing in more than 5 years):					
<u>Internally Managed Bonds</u>					
	5.9	3,209,359	-	3,209,359	0.3%
<u>Externally Managed: Note B</u>					
RBC PH&N - Combined	5.1	57,825,366	-	57,825,366	4.8%
RBC PHN - PUC Funds	5.1	75,997,667	-	75,997,667	6.3%
Scotia Institutional Asset Mgmt	4.9	211,719,721	-	211,719,721	17.5%
ONE Canadian Equity Portfolio		15,000,000	-	15,000,000	1.2%
Total Externally Managed (Long Term)		360,542,754	-	360,542,754	29.7%
Total Long-Term		363,752,113	-	363,752,113	30.0%
Total Portfolio		1,212,845,086	239,869,700	972,975,386	100%
Total Internally Managed		794,636,243	239,869,700	554,766,543	65.5%
Total Externally Managed		418,208,843	-	418,208,843	34.5%
Total Portfolio		1,212,845,086	239,869,700	972,975,386	100.0%

Note A: Cash balances as per bank accounts as at December 31, 2019. Excludes Trust Fund Cash.

Note B: In general, externally managed portfolios are deemed to be long-term investments, as they generally represent invested funds that are not required in the short- to medium-term (typically > 5 years).

APPENDIX “B”

Policy Name: Investment Policy

Legislative History: Enacted June 13, 2017 (By-law No. CPOL.-39-235)

Last Review Date: May 10, 2019

Service Area Lead: Manager III, Financial Planning and Policy

1. Policy Statement

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.

Objectives

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

1.1. 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.

1.2. Preservation of capital;

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.

1.3. Maintenance of liquidity; and

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.

1.4. Competitive rate of return.

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.

The investment portfolio is comprised of:

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

2. Definitions

- 1.1. **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.
- 1.2. **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.
- 1.3. **City Treasurer:** The individual appointed by the municipality as treasurer.
- 2.4. **Credit Risk:** is the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
- 2.5. **Diversification:** a process of investing assets among a range of security types by sector, maturity, and quality rating.
- 2.6. **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
- 2.7. **Liquidity:** a measure of an asset's convertibility to cash.
- 2.8. **Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.
- 2.9. **Market Value:** current market price of a security.
- 2.10. **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.
- 2.11. **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).
- 2.12. **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.

- 2.13. **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.
- 2.14. **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.
- 2.15. **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.

3. **Applicability**

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.

4. **The Policy**

4.1 **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.

- i) City Treasurer
- ii) Deputy City Treasurer
- iii) Director, Financial Planning & Business Support
- iv) Director, Financial Services
- v) Manager, Financial Planning & Policy
- vi) Division Manager – Taxation & Revenue

4.2 Investment Strategy

4.2.1 Diversification

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

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

4.2.2 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.

1.2.3 Investment Term Targets

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 targets shall exclude trust funds. The term targets, listed as a percentage of the total investment portfolio, are as follows:

<u>Term</u>	<u>Target</u>
Short-term	40%
Medium-term	30%
Long-term	30%

The portfolio percentage targets shall apply at the time the investment is made. At specific times the portfolio percentages may deviate from the target for various reasons, for example the timing of maturities. The current guideline is to maintain a range of $\pm 10\%$ from each term target. Prior to any changes to the portfolio based on term targets, the City Treasurer may, at their discretion, retain the investment(s), that contravenes the portfolio targets provided that such action is not contrary to the Municipal Act, 2001.

Type limitations and term targets 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.

4.2.4. Buy and Hold

To achieve the primary objectives of this investment policy, 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.

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.

4.2.5 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.

4.2.6 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.

4.2.7 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.

4.3 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:

- i) a statement about the performance or the portfolio of investments of the municipality during the period covered by the report;
- ii) 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;
- iii) a statement by the treasurer as to whether or not, in their opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- iv) 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;
- v) such other information that the council may require or that in the opinion of the treasurer, should be included;
- vi) 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
- vii) 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 their opinion, consistent with investment policy adopted by the City within thirty days after becoming aware of it.