

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Subject: 2020 Investment Report

Date: July 26, 2021

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports:

- a) The 2020 Investment Report, providing a summary of the performance of the City of London's investment portfolio, **BE RECEIVED** for information.
- b) The attached proposed by-law (Appendix "B") **BE INTRODUCED** at the Municipal Council meeting on August 10, 2021, to amend By-law CPOL.-39(a)-371 entitled "Investment Policy" to remove the investment term targets, provide for separate identification and investment type limitations for different asset groups, revise parameters for fixed income investments and revise the maximum equity holdings.

Executive Summary

This report provides a summary of the performance of the City of London's investment portfolio in 2020 along with a summary of the prevailing market conditions and how it impacted the investment assets held by the City. This report satisfies the legislative requirement for an annual investment report.

In 2020, the City earned total income of approximately \$27.3 million from investments, of which \$23.9 million was earned from reserve fund investments and \$3.4 million was earned from general fund investments.

There was an unexpected decline in interest rates from March 2020 as the Bank of Canada, alongside many other central banks worldwide, cut the overnight rate in response to the COVID-19 pandemic; this impacted the performance of the City's investment portfolio with its heavy emphasis on fixed income securities (e.g. bonds, guaranteed investment certificates).

Civic Administration is also recommending several Investment Policy updates to provide flexibility with the aim of optimizing the City's portfolio while still adhering to long-standing objectives. Changes include removal of term targets; separate identification and investment type limitations for different asset groups to further align liquidity and return needs for each group; expansion of fixed income investments to provide greater investing opportunities for Civic Administration and the City's external investment managers; and an increase in the maximum equity holdings from 5 percent to 15 percent. These changes are being made towards achieving a rate of return sufficient to maintain the purchasing power of invested funds, while still maintaining compliance with eligible investments per regulations.

Linkage to the Corporate 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.

Analysis

1.0 Background Information

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 investments 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.

2.0 Discussion and Considerations

Investments and Performance:

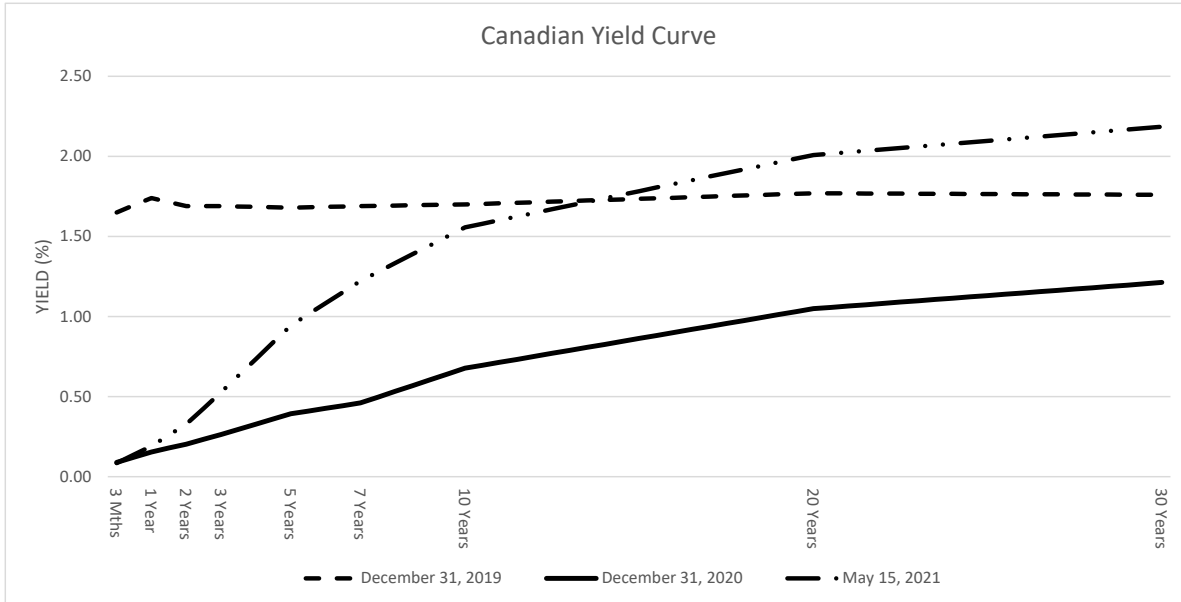
Portfolio Balance:

In 2020, the City of London (the "City") maintained a monthly average investment portfolio balance of \$1.319 million (2019, \$1.189 million), consisting of cash and investments in securities prescribed under Ontario Regulation 438/97. As at December 31, 2020, 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 500 securities.

Market Summary for 2020:

At the beginning of 2020, prior to the onset of COVID-19 in Canada, the Bank of Canada overnight target rate was 1.75% and the yield curve was exceptionally flat (see Figure 1 below). The Bank of Canada then reduced its overnight target rate three times in 2020 to 0.25%. The rate cuts were in response to the proliferation of the COVID-19 pandemic and associated economic shock. The rate environment remained low throughout the balance of 2020; bond yields increased modestly at the end of the year on the back of economic recovery buoyed by positive vaccine developments and the strong support of the Bank of Canada as various bond purchase programs ensured that the fixed income markets remained liquid. The yield curve steepened modestly during the course of 2020 and continued the steepening bias in early 2021 (see Figure 1).

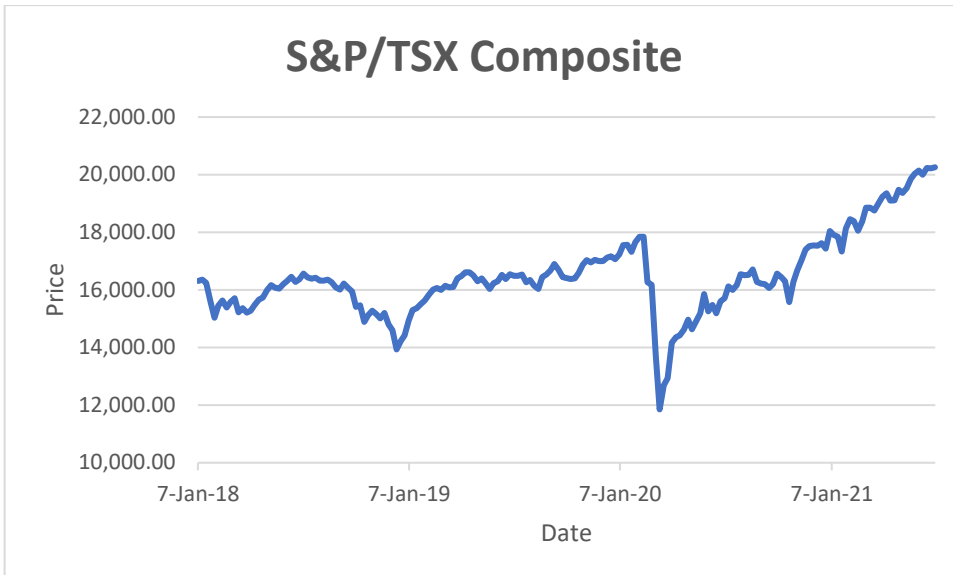
Figure 1 - Government of Canada Yield Curve



Source: RBC PH&N

Global equity markets suffered significant declines in February and March as the economic impacts of the pandemic became apparent. The S&P TSX Composite index, the primary gauge of the Canadian equity market, was no exception (see Figure 2). However, due to positive vaccine developments, significant fiscal stimulus from governments and central banks around the world and optimism around future economic growth, most global equity markets (including the S&P TSX Composite Index) rebounded from their March 2020 lows and closed the year at or above their pre-pandemic highs.

Figure 2 - S&P TSX Composite 3 Year Performance Chart



Source: S&P Global

2020 was a challenging year in global financial markets, however the City's investment portfolio remained resilient to this adversity. Economic and market 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 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 liquid and diversified portfolio while being mindful of the limitations of the portfolio.

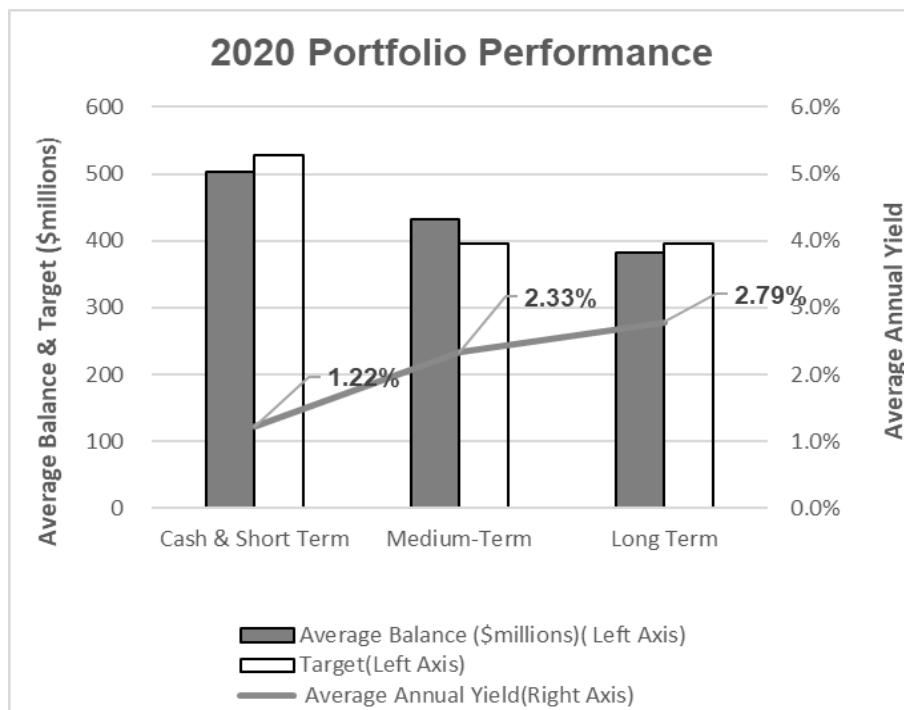
Below is a comparison of the City’s portfolio to the portfolio targets for 2020.

Classification	Maturing in	Average for 2020	Dec. 31, 2020	Target
Cash & Short-term	Less than one year	38%	50%	40%
Medium-term	One to five years	33%	22%	30%
Long-term	More than five years	29%	28%	30%

With the COVID-19 pandemic, given the low rates available in the market and fewer attractive products, the position in Cash and Short-term investments rose in comparison to the target in 2020 as Civic Administration prioritized liquidity considering the limited additional return potential for taking on additional term risk.

Performance of Investments:

The chart below shows a breakdown of the average annual yields for 2020, 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. The City’s cash and short-term portfolio as well as the medium-term portfolio had a lower yield in comparison with 2019. This is largely due to the lower rate environment in 2020 as a result of the pandemic. The long-term portfolio performance was higher as the yield environment improved slightly in the fourth quarter of the year. The ONE Canadian equity fund also contributed to the uptake in the long-term portfolio with dividend and capital gains distribution received from the fund. Overall, existing investments in the portfolio that were purchased when rates were higher (2018-2019) served as a buffer to minimize the reduction in income resulting from investments purchased in the declining rate environment.

Investment Income:

For the purposes of this report, investment income includes interest income and realized gains and losses. In 2020, the City earned total income of approximately \$27.3 million (\$28.9 million in 2019) from investments, of which \$23.9 million (\$22.3 million in 2019) was earned from reserve fund investments and \$3.4 million (\$6.6 million in 2019) was earned from general fund investments.

The decrease in investment income in 2020 compared to 2019 is related to the low rate environment and prevailing market conditions as a result of the pandemic (the Bank of Canada overnight rate was 1.75% at the beginning of 2020 vs. 0.25% at the end of 2020 with an average interest rate of 0.56% in 2020 in comparison to 1.75% throughout 2019).

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 is included in the approved 2020-2023 Multi-Year Operating Budget and contributes to offsetting the amount of taxes levied. For 2020, investment income realized (\$3.5 million) was unfavourable when compared to budgeted income (\$5.5 million). General fund investment income, given the shorter-term nature of these investments, tends to be significantly impacted by changes in the Bank of Canada overnight rate. These impacts were included in the City of London’s operating results as reported in the 2020 Year-end Operating Budget Monitoring report. Subject to the duration of the current lower rate environment, it is anticipated future investment income may be somewhat lower, particularly on shorter-term investment holdings.

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 2020, 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.

3.0 Key Issues and Considerations

3.1. Forthcoming Accounting and Reporting Changes related to Investments

New Public Sector Accounting Standards impacting investment reporting are forthcoming and required for adoption for fiscal years beginning on or after April 1, 2022. For the City this will be fiscal 2023 beginning January 1, 2023. Specifically, the main standard impacting investments is PS 3450 Financial Instruments. The standard outlines various requirements for recognition, measurement, presentation and disclosure of financial instruments, which includes investments. The changes are anticipated to include (among others) the requirement to recognize unrealized gains and losses (“mark to market”) for certain securities. As a result, adoption of these new standards may impact future investment reports.

Civic Administration is currently in the process of reviewing and evaluating requirements of the standard in preparation for implementation in accordance with the required timeline.

3.2. 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. As reported in the 2019 investment report, Civic Administration participates in a treasury and investments working group with other Ontario municipalities, exploring other potential future investment options for municipalities. The group continues to work towards a 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 option in the prudent investment standard and also the expansion of the prescribed list of eligible investments within the current Act. The work and suggestions from the working group to date have been acknowledged by Ministry representatives, but neither a formal response nor any changes have yet been communicated. The most recent update is that this topic may be discussed further as part of a formal Provincial Debt and Investment group.

Adoption of the prudent investor standard as currently written is irrevocable. As a result, Civic Administration continues to recommend not adopting the prudent investor standard at this time, pending the ongoing possibility of other investment options in consultation with the aforementioned working group.

In the interim, to focus on optimizing the investment portfolio under the current framework (the prescribed list framework), Civic Administration is proposing updates to the current investment policy as outlined in the following section.

3.3. Investment Policy Updates

The objective of the proposed changes to the Investment Policy is to provide further flexibility with the aim of optimizing the City's portfolio while adhering to long-standing investment objectives that have served the City well. The following is a summary of the key changes proposed to the Policy, included as Appendix B.

Objectives:

As with the previous policy, the first three priority objectives remain as: adherence to statutory requirements, preservation of capital and maintenance of liquidity. The fourth objective has been updated and further defined. Previously stated as obtaining a competitive return, the Policy has now defined the goal of achieving a rate of return sufficient to maintain the purchasing power of invested funds. To do so, the objective would be to earn a rate of return equal to or greater than the expected rate of inflation based on the eventual intended use of the invested funds. The City's investment strategy will continue to be to maximize total returns within the boundaries of the three preceding objectives, but the Investment Policy provides further clarity of the desired returns on invested funds.

Removal of Term Targets:

Civic Administration recommends the removal of portfolio term targets from the Investment Policy. Liquidity continues to be a cornerstone of the policy, remaining a priority objective, and also a key element in the "Diversification and Liquidity" section of the Policy (4.3.1). Sufficient cash and short-term investment products will be maintained at all times to provide for the day-to-day cash flow needs of the Corporation. However, as experienced with the volatility of the yield curve in recent years, removal of the stated targets will provide greater flexibility both to external managers and Civic Administration to properly manage term to maturity and duration of the portfolio in response to prevailing conditions in capital markets. This change avoids the requirement to invest funds for a specific duration in order to satisfy

term targets when available returns do not justify such an approach.

Segregation of Specified Assets:

The proposed Policy suggests separate identification and investment type limitations for operating funds, reserves, reserve funds and trust funds.

These changes better align the liquidity requirements and return needs of each asset group. Furthermore, this change begins the initial stages of formally identifying 'cash not immediately needed' for potential future adoption of the prudent investor standard or in the event of further potential changes to the current regulations.

Expansion and Definition of Fixed Income Investments:

For the asset groups where fixed income products are applicable (particularly Reserve Fund investments), the Policy has been updated to allow for more fixed income investment options. It should be noted that the fixed income options identified in the proposed Policy include only those products currently allowed under the prescribed list framework in Ontario Regulation 438/97.

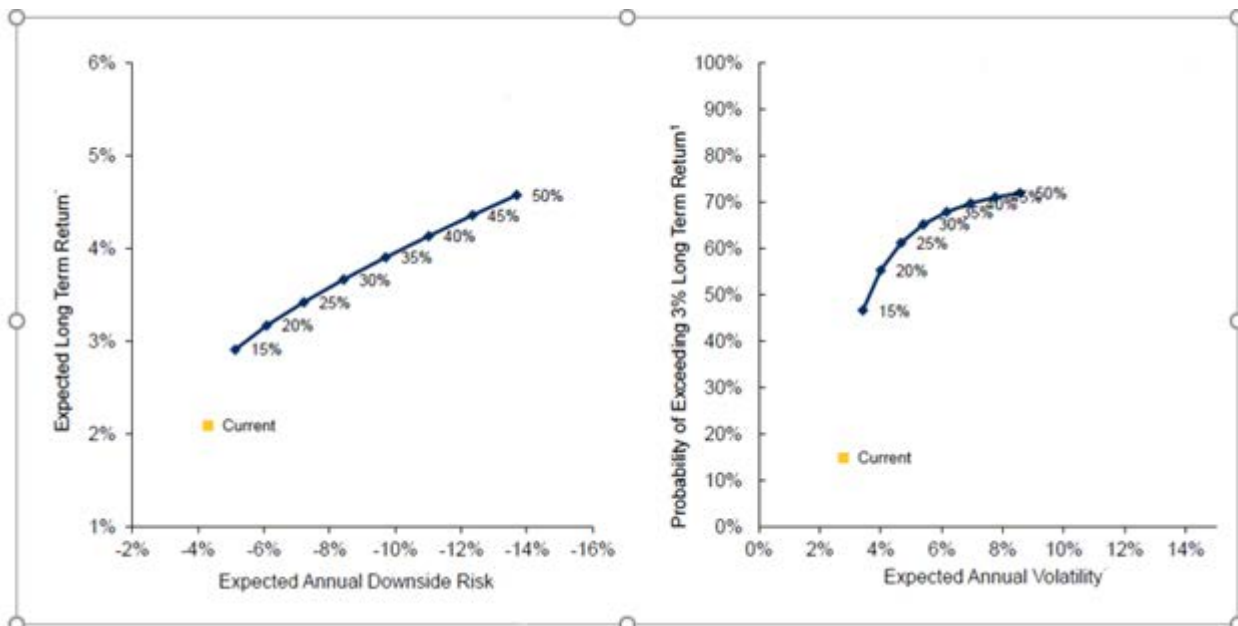
A matrix has been added where applicable to also outline the minimum credit ratings required for each category, the maximum proportion of invested funds to be held within that specific category and a maximum term to maturity for securities under each category. The objective of these changes is to provide greater opportunities for our external investment managers and Civic Administration to maximize investment returns from our fixed income portfolio within the allowable suite of investment products in O. Reg. 438/97. While the options of investments have been expanded, setting the above noted parameters provides a framework to limit risk.

Increase in Allowable Equity Holdings:

Specific to the Reserve Fund investment portfolio, the allowable maximum equity position is proposed to increase to 15% of Reserve Fund invested assets. The previous Policy allowed for a maximum of 5% of invested assets across the entire portfolio.

The increase in the maximum equity position is suggested to aid in diversification but also aims for greater returns to achieve the objective of maintaining the purchasing power of invested assets. Working with the City's external managers, modeling has shown that meaningful additional expected returns can be achieved with only minimal additional annual volatility and downside risk by increasing the maximum equity position from 5% to 15%.

The following is a model result from RBC PH&N, one of the City's investment managers:



The graph on the left shows that by increasing equity holdings from the current 5% maximum to 15%, the long-term expected return on the portfolio increases with a minimal increase in

expected annual downside risk. Continuing to increase the equity holdings beyond 15% would increase expected returns, but would also increase the annual downside risk, with diminishing incremental expected returns for doing so. The graph on the right shows that by increasing the equity exposure from the current 5% maximum to 15%, the probability of exceeding an annual expected return of 3% (the City's current target for maintaining the purchasing power of invested funds) increases with minimal additional expected annual volatility. However, there is increasing expected volatility as equity holdings are increased further beyond 15%, with diminishing incremental probability of achieving a 3% long-term annual return.

An allowable allocation of equity of up to 15% within the Investment Policy is consistent with other peer Ontario municipalities with some providing for an even greater allocation.

Civic Administration believes the increase to equity holdings will be necessary in working towards the objective of achieving a rate of return sufficient to maintain the purchasing power of invested funds, while continuing to maintain limits on holdings to ensure preservation of capital and adequate liquidity. As per Ontario Regulation 438/97, equity holdings would be through the ONE Canadian Equity Portfolio under the One Investment Program.

Working with External Managers:

These policy changes will allow Civic Administration to work closer with the City's current external managers in determining appropriate strategic asset allocations and holdings. With the expansion of products and greater clarity provided by the revised Policy, Civic Administration will be able to update our relevant Investment Policy Statements with our managers. Civic Administration intends to focus on short-term cash needs and managing short-term investments while relying more on our external managers to invest and manage the medium- and long-term investments, notably the Reserve Funds.

Conclusion

This report provides an overview of the City of London's investment portfolio in the context of the markets during COVID-19. While investment income decreased in 2020, the City was able to maintain adequate liquidity and preserve its capital. Furthermore, this report satisfies the various reporting requirements as outlined in the Municipal Act, confirming investments remained compliant with legislative requirements and the applicable Investment Policy. Lastly, Civic Administration is recommending changes to the Investment Policy to provide additional flexibility and work towards optimization of the investment portfolio within the provisions of the Municipal Act.

Prepared by: **Folakemi Ajibola, CTP, Manager, Financial Modelling, Forecasting and Systems Control (Treasury) and Martin Galczynski, CPA, CA, Manager, Financial Planning and Policy**

Submitted by: **Kyle Murray, CPA, CA, Director, Financial Planning and Business Support**

Recommended by: **Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports**

Attachment: Appendix A and B

Appendix “A” - Investment Portfolio

Product	Avg. Term to Maturity (Years)	Total Book Value (General + Reserve Fund)	General Fund Book Value	Reserve Fund Book Value	% of Portfolio
Cash (Note A)	0.0	516,342,544	299,188,683	217,153,861	37%
SCOTIA - High Interest Savings Account	0.1	0	0	0	0
Internally Managed GICs	0.5	181,811,320	6,500,000	175,311,320	13%
Total Cash and Short-Term	0.2	698,153,864	305,688,683	392,465,181	50%
Internally Managed GICs and Bonds	3.1	220,650,000	0	220,650,000	16%
RBC Dominion Securities	1.1	80,084,310	0	80,084,310	6%
Total Medium-Term	2.1	300,734,310	0	300,734,310	22%
Internally Managed Bonds	4.9	3,209,359	0	3,209,359	0%
RBC PH&N - Combined	5.1	59,603,621	0	59,603,621	4%
RBC PHN - PUC Funds	5.1	78,292,198	0	78,292,198	6%
Scotia Institutional Asset Mgmt.	4.9	218,092,957	0	218,092,957	16%
ONE Canadian Equity Portfolio	0	35,966,325	0	35,966,325	2%
Total Long-Term	0	395,164,460	0	395,164,460	28%
Total Portfolio	0	1,394,052,634	305,688,683	1,088,363,951	100%
Total Internally Managed	0	922,013,222	305,688,683	616,324,540	66%
Total Externally Managed	0	472,039,411	0	472,039,411	44%
Total Portfolio	0	1,394,052,634	305,688,683	1,088,363,951	100%

Note A: Cash balances as per bank accounts as at December 31, 2020. 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”

Bill No.
2021

By-law No. CPOL.-

A by-law to amend By-law CPOL.-39(a)-371 being
“Investment Policy”.

WHEREAS section 5(3) of the *Municipal Act, 2001*, S.O. 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*, S.O. 2001, C.25, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

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;

AND WHEREAS the Municipal Council of The Corporation of the City of London wishes to amend By-law CPOL.-39(a)-371 being “Investment Policy” to remove the investment term targets, provide for separate identification and investment type limitations for different asset groups, revise parameters for fixed income investments and revise the maximum equity holdings;

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

1. By-law CPOL.-39(a)-371 being “Investment Policy” is hereby amended by deleting Appendix “C” to By-Law No. CPOL.- 39(a)-371 in its entirety and by replacing it with the attached new Appendix “C”.
2. This by-law shall come into force and effect on the date it is passed.

PASSED in Open Council on August 10, 2021

Ed Holder
Mayor

Catharine Saunders
City Clerk

First Reading – August 10, 2021
Second Reading – August 10, 2021
Third Reading – August 10, 2021

Appendix “C” – Investment Policy



Investment Policy

Policy Name: Investment Policy

Legislative History: Enacted June 13, 2017 (By-law No. CPOL.-39-235); Amended July 24, 2018 (By-law No. CPOL.-39(a)-371)

Last Review Date: August 10, 2021

Service Area Lead: Director, Financial Planning and Business Support (or designate)

1. Policy Statement

This policy establishes the objectives, standard of care, eligible investments, reporting requirements and responsibilities of the prudent management of investments held by Corporation of the City of London (the City).

2. Definitions

- 2.1. **Active Investment Management:** an investment strategy that uses expectations about individual securities and the overall investment environment to build a portfolio aligned with those expectations. Focus is on buying and selling specific securities based on current expectations.
- 2.2. **Asset Backed Securities:** fixed income securities (other than a government security) issued by a special purpose entity, comprised of a pool of underlying assets.
- 2.3. **City Treasurer:** the individual appointed by the municipality as treasurer.
- 2.4. **Diversification:** a process of investing assets among a range of security types by sector/category, maturity, and quality rating.
- 2.5. **Liquidity:** a measure of an asset's convertibility to cash.
- 2.6. **Market Value:** the market price of a security.
- 2.7. **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.
- 2.8. **One Investment:** a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O.Reg 438/97. The program 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).
- 2.9. **Passive Investment Strategy:** an investment strategy that does not lead to individual or specific security changes when expectations change. Focus is on indexed investing or utilization of a buy and hold strategy of securities.
- 2.10. **Purchasing Power:** the level of goods and services that can be purchased at current prices.
- 2.11. **Real Return Bonds:** a debt security with coupon payments and principal indexed to inflation

- 2.12. **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.
- 2.13. **Schedule II Banks:** 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.
- 2.14. **Schedule III Banks:** foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.
- 2.15. **Supranational Bonds:** bonds issued by entities formed by two or more central governments.

3. Applicability

This investment policy shall govern the City's investment activities and portfolio which consists of:

- i) Operating Funds;
- ii) Reserves;
- iii) Reserve Funds; and
- iv) Trust Funds.

4. The Policy

4.1 Objectives

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

4.1.1 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.

4.1.2 Preservation of capital

Meeting this objective requires preserving the value of the invested principal. As such, this shall be achieved 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, being mindful of the amount invested within individual institutions and utilizing a strategic asset allocation.

4.1.3 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 hold investments that, through marketability, a high level of price stability and the timing of maturities, can maintain adequate liquidity to meet the City's needs.

4.1.4 Achieving a rate of return sufficient to maintain the purchasing power of invested funds.

Within the boundaries set by the three preceding objectives, the investment portfolio shall strive to maximize total returns with the aim of maintaining the purchasing power of invested funds. The City and any Investment Manager(s) must consider current and future economic conditions, the role that each investment or course of action plays within the overall portfolio, the expected total return from income and the appreciation

of capital and the need for liquidity, regularity of income and preservation or appreciation of capital.

4.2 Standard of Care

Investments shall:

- i) be made with judgment and care;
- ii) not be for speculation, but for investment;
- iii) be made with the best interests of the City.

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/managers 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. 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) Director, Financial Planning & Business Support
- iii) Director, Financial Services
- iv) Manager, Financial Planning & Policy
- v) Division Manager, Taxation & Revenue

4.3 Investment Strategy

4.3.1. Diversification & Liquidity

To minimize portfolio 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/category where possible;
- ii) Investing in securities with varying maturities;
- iii) Investing in securities which have an active secondary market; and
- iv) Investing in various asset classes and sectors/categories.

4.3.2. Investment Type Limitations

Portfolio limitations shall apply at the time an investment is made and shall be evaluated based on market value. Cost shall be considered where either market value is not readily available or represents an approximation of market value.

All investments shall be expressed and payable in Canadian dollars.

i) Operating Funds:

Operating funds shall be maintained to support the daily working capital needs of the City. Any funds invested shall be limited to the following fixed income investments:

Category	Minimum Credit Rating ^a	Category Maximum	Security Term Maximum (Maturity or Redeemability)
Federal & Crown Corporations	N/A	100%	2 years
Provincial	N/A	100%	2 years
Municipal	N/A	100%	2 years
Banks – Schedule I	A-	100%	2 years
Banks – Schedule II, III	A-	10%	2 years

ii) Reserves:

Reserves, given the contingent nature of funds held, shall normally be maintained as cash and not invested. Reserves balances can be temporarily utilized for working capital needs for operating cash flow. Should any balances be invested, the strategy shall follow this policy, specifically the provisions and limitations as outlined under Operating Funds.

iii) Reserve Funds:

Sufficient Reserve Fund cash balances shall be maintained to support the daily working capital needs of the City's Reserve Funds.

Reserve Funds that are invested shall be limited by the following:

Asset Class	Minimum Credit Rating ^a	Asset Class Maximum	Security Term Maximum (Maturity or Redeemability)
Fixed Income	See below for further breakdown	100%	See below for further breakdown
Equity	N/A	15%	N/A

^a Rating as issued by Standard and Poor's (S&P). An equivalent or alternative rating from another Credit Rating Agency is permissible as listed in the Municipal Act.

Further limits on the fixed income asset class are:

Category	Minimum Credit Rating ^a	Category Maximum	Security Term Maximum (Maturity or Redeemability)
Federal & Crown Corporations	N/A	100%	10 years
Federal - Real Return Bonds	N/A	10%	10 years
Provincial	N/A	100%	10 years
Municipal	N/A	80%	10 years
Banks – Schedule I	A-	75%	10 years
Banks – Schedule II, III	A-	10%	10 years
Other Canadian Corporations	A-	50%	5 years
Asset Backed Securities	AAA	10%	10 years
Supranationals, International Bank of Reconstruction and Development	AAA	10%	10 years
Universities, Colleges, School Boards, Hospitals	AA-	10%	10 years
One Investment – High Interest Savings Account	N/A	100%	N/A
One Investment – Money Market Portfolio	N/A	100%	N/A
One Investment – Canadian Government Bond Portfolio	N/A	100%	N/A
One Investment – Canadian Corporate Bond Portfolio	N/A	50%	N/A

As per O.Reg 438/97, Equity holdings are limited to the ONE Investment Program and shall be held in the ONE Canadian Equity Portfolio.

iv) 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 follow this policy, specifically the provisions and limitations as outlined under Operating Funds.

4.3.3. Active and Passive Management

To achieve the primary objectives of this investment policy, internally managed funds shall, for the most part, follow a passive management strategy. Externally managed funds may utilize either an active or passive strategy while weighing the risk and return

of employing one strategy over the other, in consultation with external investment managers and subject to confirmation of the City Treasurer or designate.

4.3.4. Performance Standards

The performance of investments shall be measured using applicable benchmarks and performance indicators. Performance shall be reviewed at least quarterly.

4.3.5. Internal Borrowing

In developing the cash requirements for the year, sufficient cash shall be available to fund capital expenditures. Capital spending is supported (temporarily financed) by operating funds and reserves prior to securing long-term financing (primarily long-term debentures).

If operating funds or reserves do 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 in accordance with the Reserve and Reserve Fund Policy, rather than obtaining external financing. For this to occur, the Reserve Funds must have sufficient cash available. A fair rate of interest shall be applied on amounts borrowed.

4.4 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 investments 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 the investment policy adopted by the City within thirty days after becoming aware of it.

4.5 Environmental, Social and Governance Considerations

As a Canadian municipality, the City has a duty to act responsibly and in the best interests of the City's constituents by ensuring the sustainability of the investment portfolio. As such, proactively considering Environmental, Social and Governance (ESG) risks and opportunities should be part of the City's investment strategy.