

Bill No. 333
2021

By-law No. CPOL.-39()-__

A by-law to amend By-law CPOL.-39-235, as amended, 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.-39-325, as amended, 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.-39-325, as amended, being "Investment Policy" is hereby amended by deleting Appendix "C" to By-Law No. CPOL.- 39-325 in its entirety and 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



London
CANADA

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 ¹	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

¹ 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.

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

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

Category	Minimum Credit Rating ^a	Category Maximum	Security Term Maximum (Maturity or Redeemability)
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.