

# COUNCIL POLICY & PROCEDURES

## SECTION I

### ETHICS

**SUBJECT:** Investment Policy

**POLICY NUMBER:** I-2

**ADOPTION DATE:** 2008

**AMENDMENT DATE:** July 21, 2021

#### 1. POLICY STATEMENT

The purpose of this investment policy is to ensure integrity of the investment management process for Municipality of the District of Guysborough (the Municipality) while investing public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the Municipality and conforming to legislation governing the investment of public funds.

The primary focus 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 under subsection 100 (1) of the Municipal Government Act. The Policy has been adopted pursuant to subsection 100 (1) (b) of the Municipal Government Act.

##### 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 Municipality. 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

**2.1 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.

**2.2 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.

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

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

**2.5 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.

**2.6 Investment Banking Group (IBG):** To be comprised of three senior investment representatives from the Banking Institution; one of which is the Regional Contact.

**2.7 Investment Executive Group (IEG):** To be comprised of the CAO, Deputy CAO, Director of Finance, and one non-voting advisor from the Municipality's Auditing Firm.

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

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

2.10 **Market Value:** current market price of a security.

2.11 **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.

2.12 **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 **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 Municipality's General, Capital and Reserve Funds as well as Trust Funds. This policy applies to all investments made by the Municipality on its own behalf and on behalf of its agencies and any new funds created by the Municipality.

## **4. The Policy**

### **4.1 Standard of Care**

#### Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers and employees exercising due diligence and acting in accordance with the investment policy and procedures shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the investment policy, procedure and related legislation.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Municipality.

### Delegation of Authority and Authorization

The Investment Banking Group (IBG) will make recommendations to the Investment Executive Group (IEG). The IBG will meet with the IEG once yearly to review the investment portfolio and at other times as requested by the IEG.

The IEG shall have the overall responsibility for the prudent investment of the Municipality's investment portfolio, as well as, the authority to implement the investment program and establish procedures consistent with this policy and Council approval. Such procedures shall include the explicit delegation of the authority needed to complete investment transactions however the IEG 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 Investment Executive Group 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 subsection 100(1) of the Municipal Government Act. The IEG, upon the recommendation of the IBG, will seek approval of Council for the initial set of investments. The IEG will report twice yearly on the investment portfolio to Council during the Audit Committee Meetings.

It is recognized that from time to time, that alterations will be needed to the portfolio and those will be made by the IEG, on the recommendation of the IBG.

Transfer of funds for investment transactions shall be authorized by two individuals, one of whom must be the CAO, Deputy CAO, Director of Finance, and one whom must be an elected official signing officer. All transfers must be approved by the Investment Executive Group.

## **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

The investment portfolio of the Municipality shall be managed in a manner that minimizes risk and earns a market rate of return. The minimum standards, guidelines and criteria for various types of investment instruments are outlined in Appendix A to the Policy.

#### 4.2.3 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 Safekeeping and Custody

All security transactions entered into shall be conducted on a custodial banking basis. Securities will be held by a third-party custodian, designated by the Chief Administrative Officer or Director of Finance and evidenced by safekeeping receipts and periodic statements of holdings.

#### 4.4 Internal Controls

The investment program shall be subject to annual external and periodic internal audit to ensure adherence to the investment policy and procedure.

All investment purchases and sales are confirmed by signature of two signing officers (one elected and one unelected) of the Municipality as authorized and designated by the banking by-law then in effect.

All investment transactions are recorded, in accordance with legislation, policies, and Canadian Public Sector Accounting Standards.

#### 4.5 Reporting

A statement of investment activities and results shall be prepared by the IBG and reported to the IEG and Council, as a component of the annual financial update that;

- Contains a statement about the performance of the investment portfolio during the period covered by the report;
- Contains a statement by the IEG as to whether or not, in their opinion, all investments were made in accordance with the investment policy and goals of the corporation; and
- Contains such other information that the Council may require or that, in the opinion of the IBG, should be included.

In addition to the annual report, the IBG & IEG shall report to Council any investment that is made that is not, in their opinion, consistent with investment policy adopted by the Municipality within thirty days after becoming aware of it.

The IBG financial institution will make available an online portal for day to day monitoring of investments by the IEG.

## Appendix A – Investment Guidelines

	MINIMUM	MAXIMUM
<b>Investments:</b>		
Cash/Short-term	30%	50%
Equities (not to exceed 15% of total assets of a company)	0%	25%
Fixed income securities	0%	50%

### **QUALITY OF INVESTMENTS**

- Percentages are expressed as a percentage of the funds.
- Investment portfolio at market value

### **INVESTMENT CRITERIA**

#### Cash/Short term

- Banker's Acceptances
- Bearer Deposit Notes
- Canadian Treasury Bills
- Commercial Paper
- Municipal Promissory Notes
- Provincial Treasury Bills
- Term Deposits
- Guaranteed Investment Certificates

#### Fixed income securities

- CMHC Mortgage Backed Securities
- Federal, Provincial, Municipal Bonds and Debentures
- Corporate Bonds and Debentures

### Equities

- Investment in the equities of any industry group (excepting sub-industry group-diversified banks) not to exceed 40% of the total portfolio.
- Investment in the equities of sub-industry group- diversified banks not to exceed 30% of the total portfolio.
- Investment must have had a consistent dividend payout history, defined as actual dividends paid divided by normalized earnings.
- No more than 10% of Equity Investments will have a market capitalization of less than \$1,000,000,000.00
- Share price must exceed \$ 5.00 per share.

For the majority of investments, the Municipality wishes to retain the option of:

- a) to withdraw dividend or interest payouts on a minimum annual basis or
- b) re-invest the said dividends or interest, either in whole or in part.

### **CURRENCY**

All investments shall be denominated in Canadian dollars