



City of
Peterborough

To: Members of the Committee of the Whole

From: Sandra Clancy, Director of Corporate Services

Meeting Date: October 17, 2016

Subject: Report CPFS16-031
Investment Policy Update

Purpose

A report to recommend the current Investment and Banking Services Policy be rescinded and a new Investment Policy be adopted to reflect current legislation and update various aspects based on peer review and market conditions.

Recommendations

That Council approves the recommendations outlined in Report CPFS16-031 dated October 17, 2016, of the Director of Corporate Services as follows:

- a) That the current Investment and Banking Services Policy as set out in Appendix A of Report CPFS16-031, be rescinded.
- b) That the Investment Policy, as set out in Appendix B of Report CPFS16-031 dated October 17, 2016, be approved.

Budget and Financial Implications

There are no direct budget and financial implications to approving this report.

Background

The City of Peterborough's existing investment and banking policy was approved May 19, 1992 and amended with report FAFS00-018 dated September 25, 2000. A copy of existing Investment and Banking Services Policy is attached as Appendix A. There is a need to revise the policy for various changes to the **Municipal Act, 2001** and **Ontario Regulation 438/97**, last revised on March 30, 2016.

Based on changes to the legislation, comparisons with peers and the existence of The One Investment Program, both the types of investments allowed, diversification aspects of our existing portfolio and credit quality of allowable investments have been reviewed and some changes to the Policy are recommended.

Summary of Changes

The following information in this report highlights the proposed changes to the Investment and Banking Services Policy:

- 1) There have been changes to content, sections and references in the **Municipal Act, 2001**, and **Ontario Regulation 438/97** that govern investments since the last update of the policy. The new policy, rather than quoting text, simply refers to the legislation.
- 2) The reference to banking services in the former policy has been omitted; specifically Section 1.2.1 of the former policy has been omitted from the new policy as the requirements for a competitive process for banking is detailed in the **Municipal Act, 2001** and no specific banking policy is needed.
- 3) **Ontario Regulation 438/97** specifies the minimum rating requirements for investing. Chart 1 summarizes the various investments by Bond Rating Agency, Dominion Bond Rating Service Inc. (DBRS), Moody's Investors Services Inc. (Moody's) and Standard and Poor's (S&P) into the credit quality measures. The City may only invest in certain types of investments and only if they are rated at Tier 2 of the Good credit quality rating level or better. Tier 3 of the Good credit quality rating and the Adequate credit quality measure is presented for illustrative purposes only.

**Chart 1
Credit Quality Measures by Rating Agencies**

Credit Quality	Tier	DBRS		Moody's		S&P	
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Superior	1	AAA	R-1 high	Aaa	P-1	AAA	A-1 +
	2	AA high	R-1 high	Aa1	P-1	AA+	A-1 +
	3	AA	R-1 mid	Aa2	P-1	AA	A-1 +
	4	AA low	R-1 mid	Aa3	P-1	AA-	A-1 +
Good	1	A high	R-1 low	A1	P-1	A+	A-1
	2	A	R-1 low	A2	P-1	A	A-1
	3	A low	R-1 low	A3	P-2	A-	A-2
Adequate	1	BBB high	R-2 (high)	Baa1	P-2	BBB+	A-2
	2	BBB	R-2 (mid)	Baa2	P-3	BBB	A-3
	3	BBB low	R-2 (low), R-3	Baa3	P-3	BBB-	A-3

- 4) Chart 2 defines the recommended limits of the composition of the City’s investment portfolio based on a review of peer Municipalities and adds The One Investment Portfolio as an Issuer. The One Investment Portfolio is a co-mingled investment program designed specifically for the municipal and broader Ontario public sector.

For the most part, the percentage of the total portfolio listed above for each issuer is the same as in the previous policy. With investments in securities rated as Good being recommended, the percentage of the total portfolio that can be invested in these securities is slightly less due to slightly more risk.

Although The One Investment Portfolio is not specifically rated by one of the three major rating agencies, investment in the securities associated with the Portfolio are specifically allowed under **Ontario Regulation 438/97**.

By adhering to the limits established in the table above, the objectives of minimizing the degree of risk and preserving capital, as well as maximizing the rate of return established in the Investment Policy, are met.

Chart 2
Recommended Composition of City's Investment Portfolio

Issuer	Rating	% of Total Portfolio
The Government of Canada	Superior	100%
Any Canadian Province	Superior / Good	50% / 25%
Other Municipalities	Superior / Good	25% / 15%
Schedule I Bank as listed in the Bank Act (Canada)	Superior / Good	100% / 50%
Schedule II Bank as listed in the Bank Act (Canada)	Superior / Good	50% / 25%
Trust or Loan Company as registered under the Loan and Trust Corporation Act	Superior / Good	25% / 15%
Other securities listed in the Investment Policy or in Ontario Regulation 438/97	Superior / Good	10% / 5%
Own Funds	Superior	25%
The One Investment Portfolio	N/A	40%

- 5) The Investment Policy proposes to delegate the approval for the City to use the services of an agent for the management of surplus cash to the Treasurer. The agent must follow the investment guidelines set out in the Investment Policy and **Ontario Regulation 438/97**. At present time, the City is managing the investment portfolio internally and has not contracted the services of an agent. In the previous policy, this decision required Council approval.

The reporting requirements detailed in the previous version of the Policy have been omitted from the current version as they are detailed in **Ontario Regulation 438/97**. Since the policy refers to that regulation, the requirement to list the detailed reporting requirements under the legislation is not required to be part of the Policy.

Submitted by,

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Attachments:

Appendix A – September 25, 2000 Investment and Banking Services Policy
Appendix B – New Investment Policy

Appendix A

September 25, 2000 Investment and Banking Services Policy

DIVISION: FINANCIAL SERVICES**SECTION 3****POLICY TITLE: INVESTMENT AND BANKING SERVICES****AUTHORITY: MUNICIPAL ACT, SECTION 167
ONTARIO REGULATION 438/97
CITY COUNCIL APPROVAL OF REPORT FAFS00-018
Dated September 25, 2000**

1.2 POLICY APPLICATION AND GOALS

1.1.1_ This policy will govern the investment of surplus cash, reserves, reserve funds and sinking funds of the City of Peterborough (“the City”), in accordance with **Ontario Regulation 438/97** and **Section 167** of the **Municipal Act**.

1.1.2_ The goal of this policy is to invest funds of the City in a prudent manner while, at all times, striving to:

1. maximize the rate of return
2. minimize the degree of risk, and;
3. ensure an adequate level of liquidity.

Maintaining an appropriate balance between these considerations will be the responsibility of the Treasurer.

1.2 CITY BANK

1.2.1 The contract to provide general banking services to the City shall be reviewed every five years. This agreement can be extended to a maximum term of ten years subject to satisfactory rate negotiations and the approval of Council.

1.2.2 The City may combine, and jointly invest, money held in its general fund, capital fund, reserve funds and reserves to obtain higher returns.

1.3 SIGNING AUTHORITIES

1.3.1 All cheques, negotiable instruments and securities that are executed in the name of the City and signed by the Mayor and Treasurer, or their designates, shall be binding upon the City.

1.3.2 The signatures of the Treasurer, and any other person authorized to sign cheques issued by the Treasurer, may be written or engraved, lithographed, printed or otherwise mechanically reproduced on cheques.

POLICY TITLE: INVESTMENT AND BANKING SERVICES

1.4 SCOPE OF ALLOWABLE INVESTMENTS

- 1.4.1 The Treasurer is authorized to invest monies not immediately required by the municipality in investments as prescribed in section **1.5**.
- 1.4.2 Subject to specific Council approval, the City may use the services of an agent for the management of surplus cash. The agent must follow the investment guidelines set out in **Ontario Regulation 438/97**.
- 1.4.3 The composition of the City’s internally managed portfolio shall be subject to the following limits:

Issuer	% of Total Portfolio
The Government of Canada	100%
Any Canadian Province with a min. credit rating of R1 Low/A	50%
City of Peterborough	50%
Other Municipalities B Subject to the following: R1 High / AAA 15% R1 Medium / AA 15% R1 Low / A 15%	25%
Schedule I Bank as listed in the Bank Act (Canada)	100%
Schedule II Bank as listed in the Bank Act (Canada)	50%
Trust Company or Loan Corporation as registered under the Loan and Trust Corporation Act	25%
Other securities listed in the Investments and Banking Services Policy or in Ontario Regulation 438/97	5%

1.5 PRESCRIBED INVESTMENTS

1.5.1 Investments shall be made only in the following instruments as specified in **Ontario Regulation 438/97**:

- A. Bonds, debentures, promissory notes or other evidence of indebtedness that are issued or guaranteed by the following entities:
 - i) Canada or a province or territory of Canada
 - ii) Agencies of Canada, or agencies of provinces or territories of Canada
 - iii) Countries other than Canada
 - iv) Municipalities in Canada, including the City of Peterborough
 - v) School boards or similar entities in Canada
 - vi) Local boards, as defined in the **Municipal Affairs Act** (but not including a school board or a municipality), or conservation authorities established under the **Conservation Authorities Act**, and;
 - vii) The Municipal Finance Authority of British Columbia
- B. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if:
 - i) the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, of payments that Canada, or a province or territory of Canada, has agreed to make, and;
 - ii) the payments referred to directly above are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.
- C. Bonds, debentures, other forms of indebtedness, deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments issued, guaranteed or endorsed by the banking institutions listed below:
 - i) Banks listed in **Schedule I or II** to the **Bank Act (Canada)**
 - ii) Loan corporations or trust corporations registered under the Loan and Trust Corporation Act

- iii) Credit unions or leagues to which the **Credit Union and Caisses Populaires Act** applies, and;
 - iv) The Province of Ontario Savings Office.
- D. Short term securities that are issued by:
- i) The board of governors of a college of applied arts and technology established under **Section 5** of the **Ministry of Colleges and Universities Act**
 - ii) Degree granting institutions as authorized under **Section 3** of the **Degree Granting Act**, and;
 - iii) Boards as defined in the **Public Hospitals Act**,
the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, and;
- E. Bonds, debentures or other securities issued or guaranteed by the International Bank for Reconstruction and Development.

1.5.2 The eligibility of investments shall be further limited by the following restrictions:

- 1. The City shall not invest in a security that is issued by a country other than Canada, or is expressed or payable in a currency other than Canadian dollars, unless the investment is rated:
 - i) by Canadian Bond Rating Service Inc. as "AA-" or higher
 - ii) by Dominion Bond Rating Service Limited as "AA(low)" or higher
 - iii) by Moody's Investors Services Inc. as "Aa3" or higher, or;
 - iv) by Standard and Poor's Inc. as "AA-" or higher.

If an investment's rating falls below the required standards, the City shall sell the investment within 90 days after the day the investment falls below the criterion.

- 2. The City shall not invest more than 25 per cent of the monies in their debenture sinking funds in short-term debt issued or guaranteed by the City.

POLICY TITLE: INVESTMENT AND BANKING SERVICES

- C. The City shall not invest in a security that is issued or guaranteed by a school board, or a similar entity, unless:
 - i. the money raised by issuing the security is to be used for school purposes, and;
 - ii. the security is to be repaid entirely from taxes or charges levied on property, from grants or appropriations made by federal, provincial, territorial or municipal governments, or from a combination of such taxes, charges, grants and appropriations.

1.5.3 If the City has invested in securities that are allowable under this policy, the treasurer shall provide an investment report to Council yearly, or more frequently if stipulated by Council. The investment report shall contain the following details:

- 1 statement outlining the performance of the portfolio of investments of the City during the period covered by the report
- 2. A description of the proportion, and the change in the proportion, of the total investments of the City that are invested in its own long-term and short-term securities to the total investments of the municipality.
- 3. A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the City.
- 4. A record of the date of each transaction in, or disposal of, its own securities, including a statement of the purchase and sale price of each security, and;
- 5. Other information that Council may require or that, in the opinion of the Treasurer, should be included.

1.5.4 The City has the ability, given to it by **Section 167.4 (2)** of the **Municipal Act**, to enter into agreements with other municipalities, hospitals, universities, colleges or school boards, or with their agents, for the joint investment of money.

1.6 ULTRA VIRES

1.6.1 **Part XII of the Municipal Act** and **Ontario Regulation 438/97** shall take precedence over this policy and any changes to it.

Appendix B

New Investment Policy



DRAFT POLICY

INVESTMENT

Department: Corporate Services **Effective Date:** 2016-10-01
Division: Financial Services **Approval Level:** Council
Section/Facility: **Policy #:**
Revision #: N/A

1.0 PURPOSE

- 1.1 The purpose of this policy is to provide guidance for the management of the City of Peterborough's investment funds and formalize the objectives, restrictions, limits and composition of the investment portfolio.

2.0 POLICY STATEMENT(S)

- 2.1 This policy is designed to provide an effective framework for investment of the surplus cash resources of the City of Peterborough bound by statutory legislation.
- .1 The City will invest funds according to the applicable sections of the **Municipal Act, 2001** such as Section 418, and the **Ontario Regulation 438/97**.
 - .2 The Treasurer will invest surplus cash of of the City in a prudent manner while striving to:
 1. Ensure an adequate level of liquidity;
 2. Minimize the degree of risk and preserve capital, and;
 3. Maximize the rate of return.
 - .4 The composition of the City's investment portfolio will be subject to the limits detailed in Chart 1. (Attachment A)
 - .5 The Treasurer has the delegated authority to use the services of an agent for the management of surplus cash.

3.0 APPLICATION

- 3.1 This Policy applies to all investments made on behalf of the City, including operating funds, reserve and reserve funds, obligatory reserve funds, capital funds and trust funds.

4.0 DEFINITIONS/ACRONYMS (As Required)



DRAFT POLICY

INVESTMENT

4.0 DEFINITIONS/ACRONYMS (As Required)

Adequate credit quality - The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

Credit risk - involves limiting investments to safer types of securities based credit quality ratings as well as diversifying the investment portfolio to minimize potential losses on individual securities. Limiting this risk also entails setting dollar limits on the exposure to the type of issuer.

Good credit quality - The capacity for the payment of financial obligations is substantial. May be vulnerable to future events, but qualifying negative factors are considered manageable.

Interest rate risk - the risk that the interest rate will fluctuate and cause significant swings in the level of income derived from the investment portfolio. Interest rate risk is mitigated by investing in securities with varying time to maturity to limit exposure to interest rate volatility.

Liquidity - the investment portfolio is structured to meet cash flow requirements for regular disbursement and other scheduled obligations. To account for unpredictable cash flow demands, the portfolio will consist of an adequate level of securities that can be easily liquidated. The City's investments shall be diversified by holding securities of various terms to maturity and various types of investments.

Long term - a debt or equity security that is expected to be held for more than 364 days after purchase.

Preservation of capital - refers to the concept of ensuring the principal value of investments is maintained despite fluctuations in various market conditions.

Rate of return - the gain or loss of an investment over a specified period of time expressed as a percentage of the investment's cost.

Short term investment - a debt or equity security that is expected to be sold or converted into cash in no longer than 364 days after purchase.

Superior credit quality - The capacity for the payment of financial obligations is exceptionally high and is unlikely to be adversely affected by future events.

Treasurer - an individual appointed by Council in accordance with the Municipal Act, 2001 who is responsible for handling all of the financial affairs of the City on behalf of and in the manner directed by the Council of the City.



DRAFT POLICY

INVESTMENT

5.0 APPENDIX, RELATED POLICIES, PROCEDURES & LINKS

(Note: All references refer to the current version, as may be amended from time to time)

5.1 Pertinent Resources

- Municipal Act, 2001
- Ontario Regulation 438/97
- Bank Act, 1991 (Canada)
- Trust and Loan Companies Act, 1991 (Canada)
- Credit Union and Caisses Populaires Act, 1994

5.2 Related Policies

5.3 Related Procedures

5.4 Related Forms

5.5 Miscellaneous

Attachment A: Chart 1 Portfolio Limits

6.0 AMENDMENTS/ REVIEWS

Next Review Date

Date
(yyyy-mm-dd)

Section(s) Amended

Comments