



Policy

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Policy Owner:	Corporate & Financial Services
Approved by:	Budget Committee of the Whole
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1. Policy Statement

The primary goal is to maximize investment returns on all available funds of the City of Richmond Hill, while ensuring capital preservation and legislative compliance.

2. Policy Purpose

The main purpose is to establish guidelines surrounding the effective application and management for all monies of the City of Richmond Hill's revenue fund, capital fund, reserves, reserve funds, trust funds and investment portfolio.

3. Policy Objectives

The investment objectives for the City of Richmond Hill, in order of priority are:

- a) Compliance to statutory requirements;
- b) Preservation and security of capital;
- c) Maintenance of necessary liquidity; and
- d) Realizing a competitive rate of return.

4. Policy Scope

a) Compliance to Statutory Requirements

All investments made by the City of Richmond Hill are governed by the *Municipal Act, 2001* prescribed in Ontario Regulation 438/97 or as amended from time to time. This legislation lists authorized investments and parameters that include eligibility, minimum credit quality and term to maturity.

b) Preservation of Capital

The City's investment policy is directed towards the preservation and protection of capital earmarked for specific purposes such as levy requisitions of the Regional Municipality of York, the Boards of Education, Development Charges, Parkland Dedication, City's Reserve Funds and its own ongoing budget requirements.

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio based on effective risk management. Credit, interest rate and equity risks are to be mitigated as follows:

Credit Risk:

- Greater allocation to securities that provide principal protection;
- Conducting investment transactions through multiple financial institutions with which the City does business, subject to the Commissioner of Corporate and Financial Services and/or Treasurer's approval; and
- Ensuring portfolio diversification by balancing risks through different sectors that meet minimum credit ratings.

Interest Rate Risk:

- Emphasis on structuring the investment portfolio such that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the secondary market prior to maturity during unfavourable market conditions;
- Maintaining adequate liquidity in the investment portfolio such that both anticipated and unanticipated cash flow demands can be sufficiently met; and
- Mitigate the effects of interest rate volatility by investing through varying maturities to balance investment term exposures.

Equity Risk:

- Smallest allocation to equities relative to the total portfolio;
- Investing in equities only through the Canadian Equity Portfolio offered by ONE Investment; and
- Exposure to equities will be monitored on a frequent basis and rebalanced if necessary, in order to safeguard the investment portfolio from being overly exposed as market values change over time.

c) Maintenance of Necessary Liquidity

Maintaining adequate liquidity helps to ensure that both operating and capital cash flow requirements can be sufficiently met. This is done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. As all possible cash demands cannot be anticipated, the portfolio consists largely of securities that can be promptly liquidated on the secondary market with minimal price concessions.

d) Realizing a Competitive Rate of Return

The City shall invest predominantly in fixed income securities, but maintain a minimum exposure to equities as part of its asset allocation and for portfolio diversification. This is to maximize the rate of return earned on its portfolio, but within the limitations of its risk and liquidity constraints, which will be secondary to principal protection. Investments will be diversified through different sectors and terms to maturity, in order to achieve the optimal portfolio composition and tactically adjusted within the guidelines of this investment policy.

Economic trends and market conditions such as inflation and changes in interest rates will be monitored. Hence, securities may be sold prior to maturity to enhance returns by taking advantage of market conditions such as short term fluctuation in interest rates.

5. Standards of Care**a) Prudence**

Investments shall be made in accordance with the policy, under the prevailing circumstances. Consideration of the probable safety of the principal, as well as income to be derived, should be of primary concern. City staff acting in accordance with procedure and this investment policy and having exercised due diligence, shall be relieved of personal responsibility for any individual security's credit risks or market price changes. This is provided that 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 this policy.

b) Ethics & Conflicts of Interest

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 ability to make impartial decisions. They shall further disclose any material interests in financial institutions with which they conduct business including 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 City.

c) Delegation of Authority

The Commissioner of Corporate and Financial Services and/or Treasurer has overall responsibility for prudent investment of the City's portfolio. However, the Treasurer is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures include explicit delegation of authority to persons responsible for investment transactions. The Treasurer shall be responsible for all transactions undertaken, and shall exercise control over the staff.

d) Competitive Selection of Investment Instruments

All investment purchases will be transacted through a competitive process only with financial institutions approved by the Treasurer. The City will accept the offer which i) has the highest yield within comparable investment types and maturities; or ii) adds greater portfolio diversification among sectors and/or issuers. It will be the responsibility of staff to produce and retain records of all transactions including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. Thus, all corresponding trade confirmations and broker statements will be kept on file for internal recordkeeping and audit requirements.

6. Authorized Investments

The following are authorized investments in which the security is expressed or payable in Canadian currency and stay within limitations outlined in Appendix 2 and 3:

- Bonds, debentures, or other evidence of indebtedness issued or guaranteed by the Government of Canada, or a Province of Canada;
- Bonds, debentures, deposit receipts, deposit notes, certificates of deposit or similar instruments issued, accepted, guaranteed or endorsed by a bank in Schedule I, II or III to the *Bank Act (Canada)*, loan or trust corporation registered under the *Loan and Trust Corporations Act* or a credit union as defined in the *Credit Unions and Caisses Populaires Act*;
- Bonds, debentures or promissory notes of a metropolitan, regional or district municipality, a school board, or a local board as defined in the *Municipal Act*;
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada with maturity greater than one year but less than 5 years;
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada with maturity greater than 5 years provided it is made in the ONE Investment Program;
- Shares issued by a corporation that is incorporated under the laws of Canada or a Province of Canada provided it is made in the ONE Investment Program;
- Bonds issued by Infrastructure Ontario;
- Asset-backed securities made under the *Loan and Trust Corporations Act*; and
- Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.

The following are authorized investments in which the security is expressed or payable in US currency and stay within limitations outlined in Appendix 2 and 3:

- Deposit receipts, deposit notes, certificates of deposit or similar instruments issued, accepted, guaranteed or endorsed by a bank in Schedule I to the *Bank Act (Canada)*.

All authorized investments must at least meet one of the minimum credit ratings as detailed in Appendix 2 to this policy.

The City may enter into one or more forward rate agreements in order to minimize the cost of risk associated with an investment because of fluctuations in interest rates provided that the counterparty is a Schedule I, II or III Bank. Before a Municipality passes a by-law authorizing a forward rate agreement the Council of the Municipality shall adopt a statement of policies and goals relating to the use of forward rate agreements.

7. Investment Parameters

The investment portfolio shall be diversified by the following guidelines:

- Minimizing over-concentration in specific issuers or sectors (excluding Government of Canada securities);
- Investing in securities with varying maturities; and
- Investing in more liquid securities, which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In order to promote diversification in the City's portfolio holdings, permissible range of percentage weightings for sector and type of securities shall be established and maintained.

The City shall follow limitations on terms to maturity consistent with investment objectives. The portfolio shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity.

8. Custody and Safekeeping

The custody and safekeeping of the City's investments are held with the corresponding financial institution from which the investment was purchased. All securities shall be held in the name of the City of Richmond Hill.

The financial institution shall issue a confirmation receipt to the City listing the specific product that was transacted, investment yield, maturity date and other pertinent information. On a monthly basis, the financial institution will also provide reports, which list all securities held for the City, the book value of holdings and the market value as of month end.

The City may also engage a custodian for specialized financial services, which include but not limited to, safekeeping of assets, financial reporting and trade settlement.

9. Performance Measurement

The City's investment portfolio will be measured on two metrics for performance evaluation, which are Income Return and Total Return.

Income Return

This represents all realized sources of income including interest, dividends and capital gains earned on all investments. The total income directly translates to the amount that has been allocated between the operating budget and reserve funds.

Total Return

This incorporates the same realized components of income return, but with the addition of Mark to Market adjustments, in order to reflect the portfolio market value change from one calendar period to the next. This serves as a valuable economic indicator as it incorporates the change in market prices of underlying securities and allows for objective performance measurement against a market benchmark.

To facilitate suitable and objective performance measurement of the investment portfolio, which has a unique term structure and composition of varying fixed income securities, its performance will be measured against a custom index-based benchmark. This will be derived from market data pertaining to FTSE Canada Debt Market Indices and the S&P/TSX Composite Index. As part of long term investments, any allocation to equities will only be attributed to the Canadian Equity Portfolio offered from the ONE Investment Program, which guarantees regulatory compliance with the *Municipal Act*. The City will incorporate a weighted blend of applicable components from the following fixed income indices and the S&P/TSX Composite Index.

- FTSE Canada Money Market Index
- FTSE Canada Short Term Bond Index
- FTSE Canada Mid Term Bond Index
- FTSE Canada Universe Bond Index

All return calculations will be net of fees.

10. Reporting Requirements

As required by the *Municipal Act*, the Commissioner of Corporate and Financial Services and/or Treasurer shall provide an investment report to Council at least annually, which shall include the following:

- A statement about the performance of the investment portfolio during the period covered by the report;
- A description of the estimated proportion of the total investments that are invested between short term and long term securities to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report;
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policy and goals adopted by the City;
- 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 (if applicable); and
- Such other information that Council may require or that, in the opinion the Treasurer, should be included.

11. Roles and Responsibilities

Commissioner of Corporate & Financial Services and/or Treasurer including delegated staff:

- Enters into arrangements with banks, investment dealers, and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities;
- Executes and sign documents on behalf of the Corporation and performs all other related acts in the day-to-day operation of the investments, treasury and debt management program;
- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments are properly managed and adequately protected; and
- Ensures adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other acts of fraud with respect to the Corporation's financial assets.

12. References

Municipal Act 2001, Section 418

Municipal Act 2001, Section 420

Ontario Regulation 438/97

Ontario Regulation 399/02

Ontario Regulation 655/05

Ontario Regulation 237/09

13. Attachments

- Appendix 1 – Definitions
- Appendix 2 – Authorized Investments, Sector and Term Limitations
- Appendix 3 – Portfolio Term Limitations
- Appendix 4 – Credit Union Requirements

Appendix 1 - Definitions

Money Market Ratings

Rating	Definition
R-1 (high)	Short-term debt rated R-1 (high) is of the highest quality, and indicates an entity which possesses unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels and profitability which are both stable and above average.
R-1 (mid)	Debt rated R-1 (mid) is of superior credit quality and in most cases, ratings in this category differ from R-1 (high) credits to only a small degree.
R-1 (low)	High quality debt with a strong degree of safety regarding timely repayment.

Dominion Bond Rating Service (DBRS) Investment Grade Obligations

Rating	Definition
AAA	Highest rating possible where the capacity to pay interest and repay principal is extremely strong.
AA	Has a very strong capacity to pay interest and principal and differs from AAA to a small degree.
A	Has a very strong capacity to pay interest and principal, but more susceptible to adverse developments than those with higher ratings.
BBB	Average to adequate capacity to pay interest and principal. Current levels of protection are adequate but adverse economic conditions are likely to lead to a weakened capacity.

Glossary of Terms

Asset Allocation:	An investment strategy to balance out the risks and returns based on investment objectives. The three main asset classes will be cash and equivalents, fixed income and equities.
Asset-Backed Securities:	Fixed income securities as an alternative to investing in corporate debt, which are backed by a loan, lease or receivables that are issued by a Special Purpose Entity.
Bond:	A debt instrument issued typically by corporations and governments to raise money for financing, which are categorized as the borrower or debt issuer. The investor loans money to the entity for a defined period of time to receive interest in return, which are categorized as the debt holders or creditors of the issuer.
CHUMS Financing Corporation:	(Colleges, Hospitals, Universities and Municipalities), a subsidiary of the Municipal Finance Officers' Association of Ontario, which jointly operates the ONE Investment Program with LAS.
Credit Risk:	The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
Custodian:	A financial institution that provides specialized services including safekeeping of securities, financial reporting and trade settlement.
DBRS:	Dominion Bond Rating Service, a credit rating agency.
Diversification:	A process of investing assets among a range of security types by sector, maturity, and a quality range.

Duration:	A measure of price sensitivity due to changes in interest rates on a fixed income security, based on its the timing of cash flows, such as interest payments and principal repayment.
Equity Risk:	The risk that the value of a share price will decline, including receiving no dividends or lesser in value than expected. This may be the result of concerns specific to a company or a change in market conditions.
Fitch:	Fitch Ratings, a credit rating agency.
Forward Rate Agreement:	An over-the-counter contract between two parties that locks in an interest rate on a pre-specified notional amount for a stated period of time that is typically used to hedge fluctuations in short-term interest rates.
FTSE Canada Indices:	Indices tabulated by FTSE (Financial Times Stock Exchange) Canada Global Debt Capital Markets, which is the predominant provider of fixed incomes indices in Canada used for performance benchmarking.
Interest Rate Risk:	The risk associated with declines or rises in interest rates, which cause an investment in a fixed income security to increase or decrease in value.
Investment-grade Obligations:	An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.
LAS:	Local Authority Services, a subsidiary of the Municipal Finance Officers' Association of Ontario, which jointly operates the ONE Investment Program with CHUMS Financing Corporation.
Liquidity:	A measure of an asset's convertibility to cash.
Mark to Market:	A method of measuring the change in the portfolio's market value over time based on underlying securities. This is used for performance measurement and benchmarking purposes.
Maturity:	The date on which payment of a financial obligation is due for an issuer to pay face value to the bond holder.
Moody's:	Moody's Investors Service, a credit rating agency.
ONE Investment:	Co-mingled investment program for Ontario Municipalities that guarantees regulatory compliance with the <i>Municipal Act.</i> , which is jointly operated by LAS and CHUMS Financing Corporation.
Prudent Person Rule:	Investment standard guided by fiduciary responsibilities in investment practices.
Safekeeping:	Holding of assets (e.g. securities) by a financial institution.
S&P:	Standard & Poor's, a credit rating agency.
S&P/TSX Composite Index:	Standard & Poor's/Toronto Stock Exchange Composite Index, which serves as the leading indicator of market performance for Canadian equities.
Schedule I Banks:	Domestic banks authorized under the <i>Bank Act</i> to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit Insurance Corporation.
Schedule II Banks:	Foreign banks subsidiaries authorized under the <i>Bank Act</i> to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.
Schedule III Banks:	Foreign bank branches of foreign institutions that have been authorized under the <i>Bank Act</i> to do banking business in Canada. These branches are certain restrictions.

Appendix 2 – Authorized Investments, Sector and Term Limitations

Sector	Minimum Credit Rating (Must meet at least one of the following)				Maximum Sector Exposure ¹			
	Long Term			Short Term	Portfolio Limit ²	Individual Issuer Limit	Term Limit	
	DBRS	Fitch	Moody's	S&P				DBRS
Federal								
Government of Canada						100%	100%	30 years
Federal Guarantees						50%	20%	30 years
Federal Total						100%		
Provincial²								
	AA	AA	Aa2	AA	R-1 (mid)	70%	35%	25 years
	A	A	A2	A	R-1 (low)	30%	15%	20 years
	BBB	BBB	Baa2	BBB	R-2 (mid)	10%	5%	15 years
Provincial Total						75%		
Municipal³								
	AAA	AAA	Aaa	AAA	R-1 (high)	35%	10%	25 years
	AA	AA	Aa2	AA	R-1 (mid)	25%	5%	20 years
	A	A	A2	A	R-1 (low)	10%	3%	15 years
Municipal Total						40%		
Banks – CAD Currency								
Schedule I Banks	A (low)	A-	A3	A-	R-1 (mid)	60%	20%	15 years
Schedule II Banks	A (low)	A-	A3	A-	R-1 (mid)	15%	5%	10 years
Schedule III Banks	A (low)	A-	A3	A-	R-1 (mid)	5%	3%	5 years
Banks – USD Currency⁴								
Schedule I Banks	A (low)	A-	A3	A-	R-1 (mid)	5%	3%	1 year
Banks Total						60%		
ONE Investment Portfolios								
Money Market ⁵						20%		
Canadian Government Bond						15%		
Canadian Corporate Bond						15%		
Canadian Equity						15%		
ONE Investment Portfolios Total						35%		
Credit Unions⁶						\$250,000 or 10%	5%	5 years
Other								
Asset-Backed Securities	AAA	AAA	Aaa	AAA	R-1 (high)	10%	5%	5 years
Loan/Trust Corporations	A (low)	A-	A3	A-	R-1 (mid)	10%	5%	5 years
Other Total						10%		

1. Maximum sector exposure limitations applies to face value of the total portfolio
2. Includes provincial guarantees
3. Includes Infrastructure Ontario, Municipal Finance Authority of British Columbia, School Boards, Local Boards and other municipalities
4. Securities expressed and payable in US dollars per section '6. Authorized Investments'
5. Includes ONE High Interest Savings Account
6. Percentage limitations of portfolio limit and individual issuer limit only applies if financial conditions are met per Appendix 4 – Credit Union Requirements

Appendix 3 – Portfolio Term Limitations¹

Term to Maturity ²	Minimum Required	Maximum Allowed
90 days or less ³	5%	100%
Greater than 90 days, up to and including 1 year	5%	95%
Greater than 1 year, up to and including 5 years ⁴	N/A	90%
Greater than 5 years, up to and including 10 years ⁵	N/A	50%
Greater than 10 years, up to and including 15 years	N/A	30%
Greater than 15 years, up to and including 30 years	N/A	15%

1. Term percentage limitations applies to amortized book value of the total portfolio
2. Weighted average term to maturity of total portfolio cannot exceed 7.5 years
3. Includes cash balances, ONE Money Market Portfolio and ONE High Interest Savings Account
4. Includes ONE Canadian Government Bond Portfolio
5. Includes ONE Canadian Corporate Bond Portfolio

Appendix 4 – Credit Union Requirements

Financial Requirements

The total principal investment in securities of credit unions can only exceed \$250,000 provided the credit union that issues, guarantees or endorses the security, provides the following within 30 days before the day the investment is made:

- i) Audited financial statements indicating that the financial indicators listed below are met; or
- ii) Certification in writing that all of the financial indicators listed below are met.

Financial Indicators

- 1) Positive retained earnings in its audited financial statements for its most recently completed fiscal year;
- 2) Positive net income in its audited financial statements for three of its five most recently completed fiscal years;
- 3) Regulatory capital of at least 1% plus the minimum percentage set out in Ontario Regulation 237/09 of its total assets as of the date of the latest audited financial statements; and
- 4) Regulatory capital of at least 1% plus the minimum percentage set out in Ontario Regulation 237/09 of its total risk weighted assets as of the date of the latest audited financial statements.