

	Title:	Investment Policy		
	Number:	FIN-001-0005		
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1.0 Background

- 1.1.** The Corporation of the City of Welland's ("the City") funds are subject to the requirements of the *Municipal Act, 2001* ("The Act"). *Ontario Regulation 438/97* Eligible Investments, as amended states that before a municipality invests in a security prescribed under the regulation, the Council of the municipality shall adopt a statement of the municipality's investment policies and goals. The regulation also governs eligible investments and prescribes conditions under which the municipality may make investments.
- 1.2.** The Act specifies a municipality must exercise the care, skill, diligence, and judgment that a prudent investor would exercise when making investments, regardless of which category of eligible investments a municipality chooses to follow.

2.0 Purpose

- 2.1.** The purpose of this policy is to guide the investment decisions of the City when funds are not immediately required for day-to-day operating requirements.

3.0 Application and Scope

- 3.1.** This investment policy applies to all financial investments of the City including the City of Welland operating funds, reserve and reserve funds, and Trust funds.

Trust funds refer to funds entrusted with the City of Welland by individuals for the perpetual care and maintenance of City owned cemeteries.

4.0 Principles and Investment Objectives

The following principles govern the investment management process for the Corporation of the City of Welland.

- 4.1. Financial Stewardship:** The City will exercise care, conservancy, planning, attention, upkeep, and management of its financial resources.
- 4.2. Preservation of Capital:** The City will invest in a manner that protects and preserves the value of the invested principal.

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4.3. Maintenance of Liquidity: The City's investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing.

4.4. Risk Management: The City will manage risk by ensuring there is sufficient diversification among the assets in the portfolio.

4.5. Investment Returns: The City will design the investment portfolio in a way to maximize investment return in accordance with the *Municipal Act, 2001* and in accordance with this policy.

5.0 Policy Statement

5.1. General

5.1.1 All investment activity shall be governed by the *Municipal Act, 2001* as amended. Investments, unless limited further by Council, will be those deemed eligible under *Ontario Regulation 438/97*, as amended.

5.1.2 Canadian and US dollar investments are authorized for the purpose of this policy.

5.1.3 Investments of the City shall be undertaken in a manner that protects and preserves the capital of the portfolio.

5.2. Preservation of Capital

5.2.1 The City shall endeavor to mitigate credit risk by:

- a) Limiting investments to safer types of securities; and
- b) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

5.2.2 The City shall endeavor to mitigate interest rate risk, a risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- a) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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- b) Investing operating funds primarily in shorter-term securities or investment pools; and
- c) Diversifying long-term holdings to mitigate the effects of interest rate volatility.

5.2.3 All investments should have a minimum rating with the limitations set out in **Schedule A**.

5.2.4 The following information shall be obtained at a minimum 30 days prior to the placement of funds and maintained on an annual basis thereafter where there is the decision to place funds in securities to be held by a credit union and where such fund value is \$250,000 or more:

- a) Audited financial statements for the most recent fiscal year.
- b) Attestation in writing that all the required financial indicators as prescribed under Ontario Regulation 438/97 are met as follows:
 - Positive retained earnings in its audited financial statement for its most recently completed fiscal year
 - Regulatory capital of at least the prescribed percentage of its total assets as the date of the most recently completed fiscal year
 - Regulatory capital of at least the prescribed percentage of total risk weighted assets as of the date of the most recently completed fiscal year
 - Positive net income in audited financial statements for three of the five most completed fiscal years

5.3. Maintenance of Liquidity

The City will invest in liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained to meet ongoing obligations. The city may also utilize temporary borrowing for short-term liquidity needs provided it helps maximize the overall return for the portfolio.

5.4. Risk Management

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The City will manage risk by ensuring there is sufficient diversification among the assets in the portfolios. To ensure proper diversification of the portfolio, additional limitations apply for the maximum allowable exposure for each classification of security as a percentage of the total portfolio. **Schedule A** sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio.

5.5. Investment Returns

- 5.5.1 The rate of return on the investment portfolios will be optimized to the extent possible given the investment objectives, safety of principal and the need to maintain adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity of principal.
- 5.5.2 For the purposes of evaluating the performance of the City's investment portfolios, all rates of return will be compared to performance expectations.
- 5.5.3 The expectation may be changed from time to time, as determined by the City Treasurer, to be comparable to the portfolio in terms of maturity, liquidity, and credit quality.

6.0 Roles and Responsibilities

6.1. Council

- Approve this investment policy which guides the investment decisions of the City.

6.2. City Treasurer

- Oversee the financial stewardship of the City including:
 - Ensure performance of the investment portfolio including monitoring and taking corrective action.
 - Establish procedures consistent with the policy and including explicit delegations of authority to persons responsible for investing activity.
 - Execute investment management related contracts and agreements; and
 - Ensuring the reporting requirements under *Ontario Regulation 438/97*, as amended and this policy are met.

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6.3. Deputy Treasurer and delegated finance staff

- Review this policy and related standard operating procedures every year or earlier as required.
- Manage funds under each specific investment mandate, complying with all guidelines, policies, and procedures; and
- Provide as much notice as possible regarding cash requirements or additional funds available for investment. But as these may not always be known in advance, consideration of this factor will be considered in assessing investment performance.

6.4. Investment Manager

- The investment manager is an external third-party bank owned consultant that is engaged by the City to manage a portion of the investment portfolio.
- The investment manager is responsible for assisting the City in formulating and executing an appropriate investment strategy.

Specifically, the Investment Manager shall be responsible for:

- Investing in accordance with the City's policy statement.
- Meeting with the Finance Department on a regular basis, as determined by the Finance Department's requirements.
- Inform the Finance Department on a timely basis of any material changes that may impact the management of the portfolio.
- Participate in annual reviews of the City's policy statement.
- Provide monthly statements, which shall contain, at a minimum:
 - Type of Investment
 - Purchase Date
 - Maturity Date
 - Interest Rate

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- Principal Amount
- Maturity Value
- Cash Balance
- Provide quarterly performance reports.
- Monitor relevant credit rating agencies on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed with the City Treasurer within 30 days. The report will recommend an appropriate workout plan to ensure the City's portfolio remains within the limitations and terms outlined in this policy. See **Schedule B** for the DBRS Morningstar Credit Rating and Ranking Scales.
- Present each year to the Finance Department and/or Council a review and outlook for the economy and the capital markets, investment performance data in relation to the objectives and prescribed benchmarks, a demonstration of adherence to the various parameters and limits included in this policy statement.

7.0 Approval Requirements

7.1. All investment transactions must be approved by two of the following:

- General Manager of Corporate and Enterprise Services / CFO
- City Treasurer
- Manager of Budgets and Financial Services / Deputy Treasurer

7.2. Signing authority for transactions from the City's bank account to an investment account would follow the signing authorities outlined in the City By-law to authorize Banking Signing Authorities.

8.0 Monitoring and Compliance

8.1. Periodic Review

8.1.1 The City Treasurer will review and reassess the policy and investment guidelines outlined in the schedules, at least once a year and more frequently as required.

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8.1.2 If, at any time, the guidelines cannot be met or may restrict performance, the guidelines may then be changed provided that the changes are reported to Council.

8.2. Consequences of Non-Compliance

8.2.1 Should the City Treasurer find that investments were not made in compliance with this policy, they shall report the inconsistency to Council within 60 days after becoming aware of it and take corrective measures.

8.2.2 If at any time a security and/or allocation with the portfolio(s), in the City Treasurer's opinion, is not in adherence with the City's investment policy and/or the Municipal Act, 2001 Eligible Investments, Regulation 438/97, then the City will create a workout plan, including expected disposal timelines, for selling the investment and shall sell the investment in accordance with the plan.

9.0 Conflict of Interest and Ethics

- 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.
- Employees involved in investment procedures shall disclose all 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 City.
- If a staff member of the Finance Department or any elected or appointed member of the City is party to or has a direct or indirect beneficial interest in an investment transaction of the City, they must provide full disclosure of that interest to the City Treasurer. The City Treasurer will determine whether the City's investment is to continue to be retained or sold forthwith.
- All investment activities must be conducted in accordance with the Chartered Financial Analyst code of ethics (<https://www.cfainstitute.org/en/ethics-standards/ethics/code-of-ethics-standards-of-conduct-guidance>).

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10.0 Allocation of investment income

- 10.1. Investment income earned on the investment portfolio will be reported annually as part of the City's operating income.
- 10.2. An allocation of investment income to deferred revenue funds that require it as outlined in agreements will be recorded at the minimum rate prescribed.
- 10.3. An allocation of investment income to reserve and reserve funds as outlined in the Reserve and Reserve Fund policy.

11.0 Reporting

- 11.1. On an annual basis, staff shall provide a report to Council which shall include the following:
 - Investment summary by category at the end of the year;
 - Percentage of total portfolio by investment category as outlined in **Schedule A**;
 - A statement about the performance of the investment portfolio during the year;
 - A summary of the investment portfolio by term as outlined in **Schedule C**;
 - A statement by the Treasurer as to whether or not, in their opinion, all investments were made in accordance with the investment policies and goals adopted by the City of Welland.

12.0 Definitions

- 12.1. **Basis Point:** 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.
- 12.2. **Capital:** The portion of financial resources that are available for trading.
- 12.3. **Carrying Value:** The original cost of the investment, plus or minus any subsequent adjustments such as amortization of the premium/discount, fair value changes, impairment losses, or accrued earnings/losses.
- 12.4. **Credit Risk:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

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12.5. Discount: The amount by which the par value of a security exceeds the price paid for the security.

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

12.7. Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables, term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

12.8. Holding Period Classification: Classification of investments based on the intended period the city would hold the asset, as follows:

a) **Cash Equivalent:** Short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

b) **Short-Term:** Securities with a holding period of two years or less.

c) **Long-Term:** Securities with a holding period of greater than two years.

12.9. Interest Rate Risk: The risk associated with declines or increases in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

12.10. Liquidity: A measure of an asset's convertibility to cash.

12.11. Local Authority Service Limited (LAS): A subsidiary of the Association of Municipalities of Ontario (AMO) which in conjunction with CHUMS are members of the ONE Investment Inc.

12.12. Market Risk: The risk that the value of a security will rise or decline because of changes in market conditions.

12.13. Market Value: Current market price of a security.

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12.14. 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.

12.15. ONE Investment Inc.: An incorporated not-for-profit organization which includes investment portfolios available for Ontario municipalities. Formerly was the ONE Investment Program which is a professionally managed group of pooled investments that meet eligibility criteria as defined by regulations under the *Municipal Act*.

12.16. Par: The face value or principal value of a bond.

12.17. Portfolio: A collection of securities held by an investor.

12.18. Premium: The amount by which the price paid for a security exceeds the security's par value.

12.19. Principal: The original sum committed to the purchase of an asset, independent of any earnings or interest.

12.20. Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity, and credit quality.

12.21. Schedule I Banks: Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

12.22. Schedule II Banks: Schedule II banks are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

12.23. Schedule III Banks: Schedule III banks are 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.

12.24. Yield to Maturity (YTM): The annual return on a bond held to maturity when interest payments and price appreciation (if priced below par) or depreciation (if priced above par) is considered.

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12.25. Workout Plan: A formal strategy, including expected timelines, for the sale of securities held by municipalities which are not permitted as eligible investments under the Regulation and require divestment. Ineligible securities can be acquired because of donations, gifts, or security downgrades.

13.0 References and Resources

This Policy should be read and applied in conjunction with the following references and resources as updated from time to time. Please note that some of the following documents may not be publicly available.

External References

- *Bank Act, 1991*
- *Municipal Act, 2001*, as amended.
- *Ontario Regulation 438/97* (Eligible Investments and Related Financial Agreements)
- CFA Institute Code of Ethics and Standards of Professional Conduct
- CFA Institute Asset Manager Code of Professional Conduct

References to Related Bylaws, Council Policies, and Administrative Directives

- Reserve and Reserve Fund Policy
- By-law to authorize Banking Signing Authorities

Revision History

Date	Description of Change	Initials
September 10, 2023	Last Update	Unknown
October 2, 1985	Initial Policy	Unknown

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Schedule A: Investment Portfolio Requirements

Security or Institution	Minimum Credit Rating	Maximum % of Portfolio ⁸	Issuer % Limit ⁸
Government of Canada Debt ¹	n/a	100%	n/a
Provincial Government Debt ²	A (low)	75%	25%
Canadian Municipal Debt ³	A (low)	30%	10%
Other Country Debt	AAA	10%	5%
Canadian Corporate Debt ⁴	A (low)	25%	10%
Schedule I Banks ^{5,6}	A (low)	80%	35%
Schedule II Banks ^{5,6}	A (low)	10%	5%
Schedule III Banks ^{5,6}	A (low)	5%	2%
Loan or Trust Corporations ^{5,6}	A (low)	10%	5%
Credit Unions ⁵	n/a	40%	20%
ONE Investment High Interest Savings Account	n/a	20%	20%
ONE Investment Canadian Equity Portfolio	n/a	20%	20%
ONE Investment "Other" ⁷	n/a	10%	5%

Notes:

1 – Includes Federal agencies.

2 – Includes Provincial agencies (i.e. Infrastructure Ontario).

3 – Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation Authorities.

4 – Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.

5 – Applies to Debt or Deposit securities, subject to the requirements of the Regulation.

6 – Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).

7 – ONE Investment "Other" includes the Canadian Government Bond & Canadian Corporate Bond portfolios or any other new investment products developed and offered by ONE Investment.

8 – Calculated based on the carrying value of each investment

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Schedule B: DBRS Morningstar Credit Rating and Ranking Scales

Long-Term Obligations Scale	
Rating	Credit Quality
AAA	Highest
AA	Superior
A	Good
BBB	Adequate
BB	Speculative
B	Highly Speculative
CCC/CC/C	Very Highly Speculative
D	Default

Short-Term Obligations Scale	
Rating	Credit Quality
R-1 (high)	Highest
R-1 (middle)	Superior
R-1 (low)	Good
R-2 (high)	Upper End of Adequate
R-2 (middle)	Adequate
R-2 (low)	Lower End of Adequate
R-3	Lowest End of Adequate
R-4	Speculative
R-5	Highly Speculative
D	Default

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Schedule C: Portfolio Term Limitations

Term Limitation	Range of Investment
Less than 1 year	15% to 100%
From 1 year up to, but not including 5 years	0% to 85%
From 5 years up to, but not including 10 years	0% to 50%
From 10 years up to 30 years	0% to 40%