



GEORGINA _____
 Policy No. – **NO. and NAME OF POLICY**

Prepared By:

Approved By:

Approved on

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NAME OF POLICY : CORPORATE INVESTMENT POLICY

PURPOSE :

This policy will govern the management of the Corporation's short and long term Surplus Cash, Sinking Funds, Reserves and Reserve Funds, Trust Funds. This policy will also ensure the prudent management of the Corporation's investment portfolio

POLICY STATEMENT :

The Corporation of the Town of Georgina strives to invest all available funds of the Corporation in a manner that will provide the highest rate of return while minimizing the degree of risk and maintaining an adequate level of solvency and liquidity, in conformity with the Municipal Act, S.O. 2001 and the Town's Investment Policy.

APPLICATION:

Municipal Council and employees are partners for the control, administration and cash management of the Corporation's temporary excess cash on hand, reserve, reserve funds, surplus funds and investment portfolio.

OBJECTIVES:

The primary objectives of the Investment Program, in priority order, shall be:

- Adherence to statutory requirements;
- Preservation of capital;
- Maintaining liquidity; and
- Earning a competitive rate of return.

DESCRIPTION:

Adherence to Statutory Requirements

All investment activities shall be governed by the Municipal Act, 2001, S.O. 2001, c.25 as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.



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Preservation of Capital

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavor to mitigate credit and interest rate risk as follows:

Credit Risk

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

Interest Rate Risk

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities or approved investment pools; and
- Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility

Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in local government investment pools which offer liquidity for short-term funds.

Competitive Rate of Return

Without compromising other objectives, the Town shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program.



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Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions. Diversification, as well as ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the Town's portfolio by means of prudent and timely adjustments to asset mix.

Standard of Care

- Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Investment officers acting in accordance with written procedure and this investment policy and exercising due diligence, 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 this Policy.

- Ethics and Conflicts of Interest

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.

- Delegation of Authority

The Treasurer has overall responsibility for the prudent investment of the Town's portfolio and is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transaction. No person may engage in an investment transaction except as provided under the terms of this Policy. The Treasurer shall be responsible for all transactions



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undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff.

Suitable and Authorized Investments

The Municipality may invest in certain securities as set out by Ontario Regulation 438/97 to the Municipal Act, as amended from time to time. The Trustee Act regulates investment of trust funds. However, in keeping with the primary objective of the Municipality's investment policy, namely the preservation of capital, permissible investments have been restricted to those of high credit quality and reasonable liquidity.

The following are authorized investments:

- Bonds, debentures, or other evidences of indebtedness of or guaranteed by the Government of Canada, the Province of Ontario, or another province of Canada;
- Bonds, debentures, term deposits, deposit receipts, deposit notes, certificates of instruments issued, accepted, guaranteed or endorsed by any bank in Schedule I or II to the Bank Act (Canada);
- Bonds, debentures or promissory notes of a metropolitan, regional or district municipality, a school board, or a local board as defined in the Municipal Affairs Act or a conservation authority established under the Conservation Authorities Act;
- Bonds, debentures or other securities issued or guaranteed by the International Bank for Reconstruction and Development;
- Pooled investments operated by The One Investment Program, Region of York and Northern Six (N6) Shared Services and other local government investment pools as they may be introduced throughout the life of this policy.

In addition to direct investments made by the Town, to the extent they meet provincial regulations, Investments in the One Investment Program are permitted. For municipalities, such as the Town, which are not individually rated by a recognized rating firm, no direct commercial paper investments are permitted. As such all authorized investments, must meet or exceed the minimum credit ratings as detailed in columns band c of Appendix 1 to this paper and are to be used in conjunction with the sector limitations noted in the Investment Parameters section of this Policy.



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However, through FSCO approval, credit and term restrictions in addition to eligible security types are somewhat less restrictive for the One Investment Program than those restrictions applicable to individual municipalities which allows investing in higher earning venues. Because of FSCO's direct oversee and additional level of scrutiny (e.g. LAS Board of Investment Advisory & AMO Board of Directors), the One Investment Program is afforded these less stringent restrictions allowing municipal access to higher yielding security classes while being protected through professional portfolio management.

Investment Parameters:

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
- Limiting investment in securities to those that have higher credit ratings;
- Investing in securities with varying maturities; and
- Investing in mainly liquid, marketable 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 Town's portfolio holdings, percentage weightings for class and type of securities shall be established and maintained;

Column "d" of Appendix 1 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio.

Column "e" of Appendix 1 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio.

Restrictions and Conditions

Furthermore, to the extent possible, the Town shall match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than ten (10) years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds;



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Column "f" of Appendix 1 sets out the maximum term limit for each investment class and issuer.

The Town shall adopt weighted average maturity limitations consistent with investment objectives. The Town shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity;

Appendix 2 sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained.

Reporting Requirements

Reports to Council

The Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements);
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- Listing of investment by maturity date;
- Percentage of the total portfolio which each type of investment represents;
- A statement about the performance of the investment portfolio during the period covered by the report;
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report;



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- 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 Town;
- 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
- Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

Performance Benchmarks

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the Town.

Short-term funds will be compared to the return on the three month Government of Canada Treasury Bills and the One Fund's Money Market Fund.

Long-term funds will be compared to Scotia McLeod's All Government Short Term Bond Index and One Fund's Bond Fund. •

Marking to Market

The market value of the portfolio shall be calculated at least annually. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the Municipal Finance Officers Association (MFOA) and Government Finance Officers Association (GFOA) Recommended Practice on "Mark-to Market Practices for Province/State and Local Government Investment Portfolios and Investment Pools.

Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Town or its delegated pooled investor. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Town. The depository shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which



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list all securities held for the Town, the book value of holdings and the market value as of month-end.

Securities Lending

The Corporation may engage in the practice of securities lending as provided in Section 418 of the Municipal Act to enable the corporation to increase its return on its custodial portfolio by lending certain assets to recognized borrowers for a fee.

Responsibilities

Treasurer and/or Deputy-Treasurer:

- Enters into arrangements with banks, investment dealers and brokers, other financial institutions and pooled investment entity/administrator 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 investment and cash 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
- Obtains adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets

REFERENCES:

Section 418 of Municipal Act

Ontario Regulation 438/97 and Ontario Regulation 265/ 02 "Eligible Investment and other Financial Agreement"



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APPENDIX I -AUTHORIZED INVESTMENTS AND SECTOR LIMITATIONS

| Type | Minimum Credit Rating | Money Market Rating | Maximum Exposure Portfolio Limit | Maximum Exposure Individual Limit (%)* | Maximum Term Limitation (%)* |
|--|-----------------------|---------------------|----------------------------------|--|------------------------------|
| (a) | (b) | (c) | (d) | (e) | (f) |
| Federal | | | | | |
| Canada | N/A | ROI- High | 100% | 100% | 20 Years |
| Federal Guarantees | N/A | ROI- High | 50% | 25% | 20 Years |
| Federal Total | | | 100% | | |
| Provincial | | | | | |
| | AA | ROI- Mid | 50% | 25% | 20 Years |
| | A | ROI- Mid | 20% | 10% | 10 Years |
| | BBB | ROI- Mid | 10% | 5% | 5 Years |
| Provincial Total | | | 80% | | |
| Municipal | | | | | |
| County/Region | AAA, AA OR A | | 25% | | 10 Years 5 Years |
| Other Municipalities | AAA, AA OR A | | 25% | | 10 Years 5 Years |
| School Boards | AAA, AA OR A | | 15% | | 10 Years 5 Years |
| | | | 10% | | |
| Municipal Total | | | 35% | | |
| Asset Backed & Commercial Paper | | | | | |
| One Investment Program | N/A | N/A | 90% | N/A | N/A |
| Chartered/Sch. II Banks; as per Ont. Reg. 438/97 | N/A | N/A | 25% | N/A | N/A |
| Asset Backed & Commercial Paper Total | | | 90% | | |

- Exposure % limitation is to be applied to the par value of the portfolio



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APPENDIX 2 - PORTFOLIO TERM LIMITATIONS¹

| Percentage Term Limitation | Minimum | Maximum |
|--|---------|---------|
| Less than 90 days | 5% | 100% |
| Less than 1 year | 10% | 100% |
| From 1 year up to, but not including 5 years | 0% | 60% |
| From 5 years up to, but not including 10 years | 0% | 40% |
| From 10 years up to 20 years | 0% | 10% |

Other Restrictions:

- 1) Term is limited to an individual maximum term of 20 years and a weighted average term of 4 years for the whole portfolio
- 2) Investments for terms in excess of 1 year are restricted to any of the Canadian Federal, Provincial and Municipal governments, the top 5 Canadian Schedule I banks, asset backed securities; and institutions guaranteed by the aforementioned, subject to the credit rating limitation set out on Appendix I.

*1 Term % limitations to be applied to the total amortized book value of the General Fund Portfolio.



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DEFINITIONS:

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.

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

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

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.

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.

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

Local Authorities Service Limited: entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest.

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

Market Value: current market price of a security.

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. See "Weighted Average Maturity".

One Investment Program: a pooled investment option for Ontario municipalities and the broader public sector, where the deposits of participating groups are jointly



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managed by professional portfolio managers. The Program is operated by LAS and The CHUMS Financing Corporation, subsidiary companies of AMO and MFOA, respectively.

Prudent Person Rule: an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

Qualifying Assets: financial assets, either fixed or revolving, that by their terms convert 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.

Safekeeping: holding of assets (e.g., securities) by a financial institution.

Sinking Fund: money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

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.

Weighted Average Maturity (WAM): the average maturity of all the securities that comprise a portfolio