

THE CORPORATION OF THE
**CITY OF WHITE
ROCK**

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POLICY TITLE: INVESTMENT POLICY

POLICY NUMBER: FINANCE - 310

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<i>Originating Department:</i> Finance	<i>Date last reviewed by</i> September 11 2023

1. POLICY

The purpose of the City of White Rock's (the "City's") Investment Policy is to provide a management framework for its investment portfolio and to ensure that the investment of public funds is handled with due care. It is the policy of the City to invest its funds in a manner that will provide for the optimal blend of security and risk-adjusted returns, while meeting current and future cashflow demands. Further, this Policy was created to adhere to the statutory requirements of the *Community Charter* and the *Local Government Act* as applicable.

2. SCOPE

This Investment Policy applies to all cash and investment assets of the City which are suitable for investment with due consideration of cashflow demands.

3. OBJECTIVES

The objectives of the City's investment program:

a. Principal Protection

Preservation of capital is of utmost importance. It is central to this objective that a prospective investment issuer's creditworthiness be considered and monitored if an investment is made. Secondly, portfolio diversification must be leveraged, when possible, to limit concentration and other associated risks and

provide a greater base of assets to offset losses.

b. Liquidity

The City's investment portfolio shall be managed in a manner where liquid assets are available for all reasonably anticipated funding requirements. This process includes assessing cash demands and selecting investments that mature (or have a duration) prior (or shorter) to (than) the need for the cash. This Policy recognizes that it may be prudent to invest in longer-term investments (or longer durations) to maximize returns that may not be as liquid as shorter-dated assets. Investments in less-liquid assets shall only be made with cash that is anticipated to be used after the less-liquid investment matures.

Securities purchased are intended to be held until maturity unless favourable market conditions afford a substantial opportunity to sell the security early. Although it is the aim in most cases to hold securities until maturity, should cash requirements emerge, the investment portfolio shall consist mainly of securities with active secondary resale markets.

c. Return on Investment

Return on investment (ROI) is a secondary objective to principal protection and liquidity. The adequacy of the investment portfolio's returns is contemplated in the context of the requirements to preserve capital and manage liquidity, while adhering to the investment constraints of the *Community Charter* and this Policy. It is prudent to review investment performance on a regular basis.

4. STANDARD OF CARE

a. Prudence

Investments shall be made with professional judgement and care. Investments will be made with the same level of diligence and intelligence as would be exercised with personal investments. Speculative activities are prohibited.

The standard of prudence to be executed when making investment decisions shall be the "prudent person" standard, whereby those staff who act in accordance with the City's investment policy and exercise due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes; provided the deviations from expectations are reported in a timely manner, and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

b. Ethics and Conflict of Interest

Staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the

investment program or may impair their ability to make impartial decisions. Any potential conflict of interest must be disclosed to the Chief Administrative Officer and will be considered on a case-by-case basis.

c. Delegation of Authority

Authority to manage the City's investment program is granted to the Director, Financial Services and Chief Financial Officer (the "CFO") and is derived from section 149 of the *Community Charter* as follow:

Section 149: One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions: (c) investing municipal funds, until required, in authorized investments.

Authorized investments are regulated per section 183 of the *Community Charter*, and further as outlined in section 5 of this Policy.

5. AUTHORIZED INVESTMENTS

a. All investments must be made in accordance with section 183 of the *Community Charter*, which reads as follows:

Money held by a municipality that is not immediately required may only be invested or reinvested in one of more of the following:

- i. securities of the Municipal Finance Authority;
- ii. pooled investment funds under Section 16 of the Municipal Finance Authority Act;
- iii. securities of Canada or of a province;
- iv. securities guaranteed for principal and interest by Canada or by a province;
- v. securities of a municipality or regional district or greater board;
- vi. investments guaranteed by a chartered bank;
- vii. deposits in a savings institution, or non-equity or membership shares of a credit union;
- viii. other investments specifically authorized under this or another Act.

b. Investment Denomination

Investments shall only be denominated in Canadian or U.S. dollars. This policy permits the CFO to purchase U.S. dollar-denominated investments, as prudent, to meet specific future U.S. dollar needs (e.g., investing/saving for a future U.S. dollar-denominated capital purchase). Investments shall be typically denominated in Canadian dollars and speculative currency investments are prohibited.

c. Portfolio Limitations

The following two tables outline the limitations imposed by this Policy on the universe of investments available to the City. The portfolio constraints, targeting credit ratings and exposure to assets classes rank equal and are to be managed synchronously.

Portfolio Limits by Credit Rating

Credit Rating	Maximum % Share of Total Reserves
AA- or higher [short-term rating R-1 (mid) or higher]	100%
A+/A/A- [short-term rating R-1 (low)]	75%
BBB+/BBB/BBB- or Unrated [short-term rating R-2 (high) or lower]	25%

Portfolio Limits by Asset Type

Asset Type	Maximum % Share of Total Reserves	Maximum Single Entity % of Total Reserves	Maximum Term
MFA Pooled Investment Funds	15 – 50%	N/A	366 days to 11 years
Federal Government	Up to 100%	Up to 100%	50 years
Provincial Government	Up to 100%	25% to 75% [1]	20 years
Securities of the MFA [2]	Up to 25%	20% to 25% [1]	20 years
Local Governments	Up to 50%	10% to 25% [1]	5 to 20 years [1]
Financial Institutions	Up to 50% [3]	10% to 25% [1]	5 to 10 years [1]

[1] Ranged based on Credit Rating.

[2] Refers to debt issued by the Municipal Finance Authority of BC.

[3] Short-term portfolio funds (cash needed within 1 year) may be 100% held within Financial Institutions, but subject to Single Entity limits.

d. Credit Ratings

Credit ratings shall be obtained from “Recognized Ratings Agencies” defined

as: Moody's Investors Service (Moody's), Standard & Poor's (S&P), Fitch Ratings (Fitch), and DBRS Morningstar (DBRS).

Credit Ratings within this Policy are quoted using S&P's long-term scale and DBRS's short-term scale. A Ratings Equivalency Chart is provided in Appendix A.

e. Adherence to Limits

Total securities, of all types, of a single entity shall not normally exceed the limits outlined in the Portfolio Limits by Asset Type table. However, as market and operational (e.g., tax collection) fluctuations may cause aggregate holdings of a single entity to exceed applicable thresholds, the City is not obliged to sell securities with immediacy to remain in compliance with this Policy. Rather, the portfolio must be rebalanced when it is most prudent to do so in any manner deemed appropriate.

f. Long-term Portfolio (10 years+)

After first ensuring adequate short & mid-term liquidity, if the CFO identifies monies not needed for 10 years or longer, they may request Council to acknowledge those monies as "long-term: 10 years+" and suitable for investments with long investment horizons. If funds have been designated as "long-term: 10 years+" the CFO may invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

The Municipal Finance Authority (the "MFA") constructs its long-term Pooled Investment Funds as a stand-alone Fund with appropriate diversification, risk and return characteristics for long-term investing requirements. As such, these Funds do not apply to concentration, credit or other investment policy limits described elsewhere in this Policy.

It is the City's intent to hold long-term fixed income investments to maturity. It is the City's intent to hold perpetual long-term MFA Funds for 10 years or longer – in alignment with, but redeemed prior to, future obligations.

g. Unlisted Investments

Investment opportunities not expressly outlined in this Policy, but compliant with applicable legislation may be brought forward by the CFO with an accompanying report to the Council to discuss its merits. If deemed appropriate by Council, the CFO may proceed with the investment.

6. INVESTMENT PARAMETERS

a. Diversification

It is the Policy of the City to diversify its investment portfolio. To reduce the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalents in all funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the CFO.

b. Maturity

To the extent possible, the City shall attempt to match the maturity of its investments with anticipated cashflow requirements. Due to the imprecise nature of forecasting cashflow needs, a portion of the investment portfolio shall be continuously invested in short-dated securities.

7. SAFEKEEPING AND CUSTODY

a. Safekeeping

All securities purchased by the City shall be held in the name of the City. All securities must be held in safekeeping by a recognized financial institution.

b. Payment

Investment transactions occur electronically (i.e., no physical cheque is drawn). Investment transactions that occur between the City and financial institutions must be approved by the CFO or designate.

8. REPORTING

A report shall be prepared annually by the CFO or designate and presented to Council which identifies the investments held as at the prior December 31st, the overall rate of return on the investment portfolio, discloses any variance from this policy.

Appendix A: Credit Rating Equivalency Chart

Credit Quality	S&P		Moody's		DBRS		Fitch	
	Long-term	Canadian CP Scale (Short-term)	Long-term	Short-term	Long-term	Short-Term	Long-term	Short-Term
Superior	AAA	A-1 (high)	Aaa	p-1	AAA	R-1 (high)	AAA	F1+
	AA+	A-1 (high)	Aa1	p-1	AA (high)	R-1 (high)	AA+	F1+
	AA	A-1 (high)	Aa2	p-1	AA	R-1 (mid)	AA	F1+
	AA-	A-1 (high)	Aa3	p-1	AA (low)	R-1 (mid)	AA-	F1+
Good	A+	A-1 (mid)	A1	p-1	A (high)	R-1 (low)	A+	F1
	A	A-1 (mid)	A2	p-1	A	R-1 (low)	A	F1
	A-	A-1 (low)	A3	p-2	A (low)	R-1 (low)	A-	F2
Adequate	BBB+	A-1 (low)	Baa1	p-2	BBB (high)	R-2 (high)	BBB+	F2
	BBB	A-2	Baa2	p-2	BBB	R-2 (mid)	BBB	F3
	BBB-	A-3	Baa3	p-3	BBB (low)	R-2 (low), R-3	BBB-	F3
Speculative	BB+	B	Ba1	Not Prime	BB (high)	R-4	BB+	B
	BB	B	Ba2	Not Prime	BB	R-4	BB	B
	BB-	B	Ba3	Not Prime	BB (low)	R-4	BB-	B
Highly Speculative	B+	C	B1	Not Prime	B (high)	R-4	B+	B
	B	C	B2	Not Prime	B	R-5	B	B
	B-	C	B3	Not Prime	B (low)	R-5	B-	B
	CCC	C	Caa	Not Prime	CCC	R-5	CCC	C