

Corporate Policy

100 Newport Drive, Port Moody, BC, V3H 5C3, Canada
Tel 604.469.4500 • Fax 604.469.4550 • www.portmoody.ca

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| Title: | Investment of Available Funds | 01 |

Related Policies

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Approvals

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Investment of Available Funds

1. PURPOSE

The purpose of the investment policy of the City of Port Moody (“the City”) is to provide the framework for investment portfolio management to City staff. This policy considers industry best practices, and incorporates recommendations pursuant to the Government Finance Officers Association (GFOA).

It is the policy of the City to invest municipal funds in a manner that will provide the optimal blend of investment security and return, while meeting the daily cash flow demands of the City and complying with the statutory requirement of the *Community Charter*.

2. SCOPE

These policy guidelines are applicable to all funds managed by the City. These funds are pooled and interest revenue is allocated on an annual basis.

3. INVESTMENT PRIORITIES

Investments managed by the City will be invested in accordance with sound investment management principles contained herein and shall conform to Section 183 of the *Community Charter* and will reflect a conservative philosophy based on three fundamental objectives, in the following order of priority:

3.1 Preservation of Capital

Investments shall be made to ensure the safety of the principal within the portfolio. This is accomplished by placement of funds with creditworthy institutions and through portfolio diversification. Portfolio diversification is necessary in order to minimize potential losses on individual securities and to maximize the yield from a combination of financial products.

3.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated.

3.3 Return on Investment/Yield

The investment portfolio shall be designed with the objective of maximizing market rate of return subject to the investment risk constraints and liquidity requirements of the City.

4. STANDARDS OF CARE

4.1 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 risk/return relationship of each security.

4.2 Ethics and Conflicts of Interest

Officers and employees shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could

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impair their ability to make impartial investment decisions. Officers and employees shall disclose any material financial interests in financial institutions and/or investment dealers that conduct business with the City.

Officers and employees shall conduct themselves in accordance with the Code of Conduct established by GFOA, LGMA, and professional accounting bodies.

4.3 Delegation of Authority

Authority to manage the City's investment portfolio is derived from Section 149 of the *Community Charter* as follows:

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;

The General Manager of Finance and Technology, under the authority of City of Port Moody Officers Bylaw, 2013, No. 2951, is assigned the powers, duties, and responsibilities for financial administration pursuant to Section 149 of the *Community Charter*.

Management responsibility for the investment program is hereby delegated to the General Manager of Finance and Technology, who shall establish and maintain written procedures for the operation of the investment program consistent with this policy. The General Manager of Finance and Technology shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate persons responsible for the investment transactions.

4.4 Credit Risk Monitoring

Investments will reflect the credit worthiness of the institution. In addition to in-house credit analysis, the City shall rely on the credit analysis of the Dominion Bond Rating Service (DBRS) given their prominence in the Canadian market. In-house or credit rating agency credit analysis information is an assessment and cannot serve as a guarantee for safety of principal.

The purchase of any non-rated securities or other securities carrying a credit rating below those as noted in this policy is strictly prohibited.

4.5 Downgrade in Credit Ratings

Should an issuer's credit rating be downgraded while the City holds the investment, it shall be at the discretion of the General Manager of Finance and Technology as to its disposition.

5. APPLICATION

5.1 Option 1 – City Managed Investment Portfolio

Except for overnight deposits, the City shall solicit competitive verbal quotations for the purchase and sale of securities. This policy recognizes that, from time to time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought provided that value can be substantiated by market data information. The selection of investments will depend upon the overall investment criteria in #1 above, the security, term, cash flow, and interest rates offered, as well as considering the limits below. The investment selected will not necessarily be based on the highest return and/or lowest cost. A variety of brokers and quotations should be used as much as is practical.

Competitive bids received verbally must be recorded and such documentation retained for two audited years. This policy is to protect Municipal Officials and to ensure adequate audit information.

5.2 Option 2 – Investment Fund Portfolio

The General Manager of Finance and Technology and Technology, in consultation with the Finance Committee may elect to assign a portion or all of the management of the City's investments to a specific institution, the External Investment Manager, such as the City's principal bankers, or to an Investment Management firm. That being the case, the requirement for different brokers and for competitive bids noted in the previous two paragraphs would be suspended. A separate agreement will cover the terms and conditions of this arrangement.

All investments must meet the criteria outlined in this policy.

5.3 Permissible Investments

Section 183 of the *Community Charter* sets out permissible investments as follows:

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

- (a) securities of the Municipal Finance Authority;
- (b) pooled investment funds under section 16 of the *Municipal Finance Authority Act*;
- (c) securities of Canada or of a province;
- (d) securities guaranteed for principal and interest by Canada or by a province;
- (e) securities of a municipality, regional district, or greater board;
- (f) investments guaranteed by a chartered bank;
- (g) deposits in a savings institution, or non-equity or membership shares of a credit union; and
- (h) other investments specifically authorized under this or another Act.

5.4 Authorized Investment Limits

Notwithstanding the limitations placed by Section 183 of the *Community Charter* on the investment portfolio, the Financial Officer shall adhere to the guidelines set out in this section.

The following percentage limits are at the time of purchase only.

| ISSUER SECTOR | MAXIMUM % OF PORTFOLIO | PER ISSUER |
|--|---------------------------------------|-----------------------|
| Federal Government – R1H/AAA | 100% | 75% |
| Provincial Governments – R1H/R1M/AA | 100% | 50% |
| Municipal Finance Authority | | 60% |
| Canadian Chartered Bank – R1H/R1M/AA Low | 100% | 50% |
| Canadian Credit Union – R1M/AA | 50% | 30% |

(Note: These limits may be marginally exceeded for strategic reasons with approval of the General Manager of Finance and Technology).

6. INVESTMENT PARAMETERS

6.1 Diversification

Assets held in investment portfolios shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Financial Officer. In establishing specific diversification strategies, maturities selected shall provide for stability of income and reasonable liquidity.

6.2 Maturities

The City shall attempt to match short-term investments with anticipated cash flow requirements to the extent possible. However, because of the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds to meet ongoing obligations.

The City will generally not directly invest in long-term investments maturing more than five (5) years from the date of purchase. However, investment terms exceeding five (5) years may be invested in if the maturity of investments are tied to a specific program, and are made to coincide as nearly as practicable with the expected use of the funds attached to the program in question.

7. SAFEKEEPING AND CUSTODY

7.1 Authorization

The custodial bank shall not accept delivery or payment without prior authorization and instructions from the City. City policy requires two authorized signatories on every investment transaction.

7.2 Evidence

All transactions shall be evidenced by a contract advice from the investment dealer, as well as a settlement advice from the custodial bank. The broker or agent shall conduct transactions authorized verbally, and be followed by written confirmation per standard investment industry regulations.

7.3 Registration

All securities shall be registered in the name of the City of Port Moody. Where applicable, securities purchased directly from BC credit unions shall be held in the City's name in a separate account maintained within the issuing credit union.

Where applicable, BC credit union securities purchased through an investment dealer shall be held in the City's name in a separate account maintained by the investment dealer with whom the transaction was undertaken.

Custodial holding reports from the third-party custodian, statements from BC credit unions, and statements from investment dealers will be reconciled to the City's investment portfolio on a monthly basis.

Should the City appoint an External Investment Manager, specific provisions for payment and safekeeping shall be provided for.

8. CO-MINGLED FUNDS

Investments may be made in the pooled investment funds of the Municipal Finance Authority: Money Market, Intermediate, and Bond Funds – which are managed by an independent third party, provided that the Safety, Liquidity, and Yield characteristics of the fund are consistent with or better than alternative money market strategies approved pursuant to these guidelines.

9. REPORTING

The Finance Committee will be provided with a summary annual report. The Committee will be notified immediately in circumstances where the portfolio risk profile or return deviates significantly from expectations.

10. RELIEF FROM PERSONAL RESPONSIBILITY

Individuals acting in accordance with written procedures and within the guidelines of this policy and exercising due diligence shall be relieved of personal responsibility for an individual issuer's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments in credit risk change.

11. POLICY REVIEW

This policy shall be reviewed and amended as necessary every three years or more frequently as required to ensure that it remains consistent with the overall objectives of the City of Port Moody and with current prudent investment practices.

APPENDIX I
Definitions

BANKERS ACCEPTANCE: An investment instrument that is a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by the borrower's bank. The bank's acceptance is signified by a counter signature on the draft. Once a draft of this nature has been co-signed, it becomes a Bankers Acceptance and is backed by the credit of the accepting bank. These instruments are actively and openly traded in the money markets and as a result are extremely liquid.

BOND: An IOU from the borrower to the lender. It refers to any interest bearing government or corporate security that obligates the issuer to pay a particular sum of money at specified intervals and to repay the principal amount of the loan upon maturity. A secured bond is backed by collateral that may be sold by the bondholder if the bond issuer fails to pay interest and principal as due. A debenture or unsecured bond is not backed by any specific collateral.

CALLABLE SECURITIES: Securities redeemable by the issuer prior to the scheduled maturity date.

CENTRAL DEPOSITORY FOR SECURITIES (CDS): A national clearing house for securities trading owned by the major banks, investment dealers, and trust companies. CDS is regulated directly by the Provincial Securities Commissions and indirectly through the Federal regulations of Financial Institutions. It manages the recording and clearing of Canadian stocks, bonds, and coupons on a book basis. The physical securities are stored in vaults of CDS and the Bank of Canada.

COLLATERAL: Asset pledged to a lender as security for a loan.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

ISSUER EXTENDIBLE NOTES: Differ from traditional fixed income investments such as bonds and GIC's in that there is a greater level of uncertainty as to the maturity date, and the income received may vary according to a predetermined schedule. For example, a note may have:

- An initial term to maturity of 1 year and might be extendible by the issuer on a year-by-year basis up to 10 years.
- In addition the interest paid or coupon, may rise over time if the maturity date of the note is extended.
- Generally issued by governments, federal agencies, or high grade corporations (such as schedule I Canadian Banks) with strong credit ratings.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked price is narrow and a holding of reasonable size can be sold at those quotes.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MONEY MARKET: The market in which short-term (one year or less) debt instruments (treasury bills, commercial paper, bankers acceptances, etc.) are issued and traded.

OVERNIGHT TRANSACTION: An investment of funds maturing on the City's next business day. May take the form of a term deposit with a bank or credit union, or may take the form of a repurchase agreement.

PORTFOLIO: Collection of securities held by an investor.

RATING: Evaluation of the likelihood of default by a security issuer. Canada Bond Rating Service and Dominion Bond Rating Service are the primary bond and money market security rating agencies in Canada. Standard and Poors, and Moody's Investor Service are American bond rating firms that also rate Canadian issuers.

REPURCHASE AGREEMENT: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Investment dealers use repurchase agreements extensively to finance their positions.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

STEP-UP NOTES (a subtype of Issuer Extendible Notes): Step-up notes feature coupon rates that increase over time according to a pre-determined schedule. Generally, the issuer has the option of extending the maturity beyond its initial maturity date (usually in one-year increments) at a higher coupon rate. For example, an issue might have an initial term to maturity of 2 years, extendible to 10 years. The initial coupon may be 5.00% which rises to 5.25% if extended at the first maturity date, 5.50% if extended to the third maturity date and so on. Investors often find this feature attractive as the rising coupon rates offset some of the risk posed by a potential increase in interest rates.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) COUPON YIELD is the rate of annual payments to the lender expressed as a percentage of the par value of the security. (b) YIELD TO MATURITY is the interest rate that will make the present value of future cash flows from a security equal to the current price or market value of the security.