

<b>City of Victoria</b> Investment Policy	
<b>Prepared by:</b> Department of Finance	<b>Date of issue:</b> June 2006

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## **POLICY**

It is the policy of the City of Victoria to invest public funds in a prudent manner within prescribed limits which will provide the highest investment returns while meeting cash flow demands and conforming to all statutory requirements.

## **SCOPE**

The City of Victoria investment policy applies to all investment activities involving the financial assets of the City. These funds are accounted for in the City's Annual Report and include:

- i. General Operating Funds
- ii. Capital Funds
- iii. Reserve Funds
- iv. Trust Funds

## **STANDARDS**

Investments shall be made with judgment and care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers exercising due diligence and acting in accordance with this investment policy shall be relieved of personal responsibility for credit risk or market price changes of a certain investment, provided that appropriate action is taken to control adverse developments and that such developments are reported in a timely manner.

## **OBJECTIVES**

### **1. Adherence to Statutory Requirements**

Investment guidelines for municipal funds are provided in Section 183 of the Community Charter. This section states that "a municipality may invest money that is not immediately required 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
- h. Other investments specifically authorized under this or another act."

### **2. Preservation of Capital**

The prime investment objective of the investment program is to ensure the safety of principal. Therefore, investments shall be selected in a manner that seeks to ensure the preservation of capital. To attain this objective, the City will mitigate credit risk and interest rate risk as follows:

- a. **Credit Risk:** The city will minimize credit risk, the risk of loss due to the failure of the security issue or backer, by:
  - Limiting investments to securities of high credit worthiness
  - Diversifying the investment portfolio to minimize potential losses
- b. **Interest Rate Risk:** The city will minimize interest rate risk, the risk that market values or yields will fall, by:
  - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
  - Investing operating funds primarily in shorter-term investments

**3. Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating and reasonably anticipated cash flow requirements. This will be accomplished by selecting maturity dates that correspond to cash flow requirements and by choosing investments where the principal amount is easily redeemable and that have an active secondary market.

**4. Rate of Return**

The rate of return of the investment portfolio shall be maximized without compromising any of the other objectives.

**5. Socially Responsible Investing**

Where possible, socially responsible investing (SRI) criteria will be applied to the selection of investments. SRI strategies and criteria are established by the Social Investment Organization (SIO), a national non-profit association for the socially responsible investment industry in Canada. SRI screening involves selecting investments in a portfolio based on social and/or environmental criteria with the objective of excluding companies that have a negative social and/or environmental impact, and selecting companies that make positive contributions to society and/or the environment. The City's investment program shall invest in SRI products in consideration of the adherence to statutory requirements.

**GUARDIANSHIP**

**1. Ethics and Conflicts of Interest**

Employees involved in the investment process shall refrain from personal business activity that could impair their decisions or affect the performance of the investment portfolio. Any material interest or position in a financial institution or investment that could affect the performance of the investment portfolio shall be disclosed.

**2. Responsibility & Delegation of Authority**

The Accounting Manager is responsible for the control, administration and management of the City's investment program in accordance with this investment policy. The Accounting Manager has the authority to delegate authority to manage and implement the City's investment program. The designate shall act in accordance within the established procedures and internal controls of this policy. No person engaging investment transactions are exempt from the terms of this policy.

**3. Custody**

All investments shall be held in the name of the City by approved institutions. Confirmation of investments will be maintained in the appropriate investment file at City Hall, 1 Centennial Square, Victoria, BC.

**INVESTMENT PARAMETERS**

**1. Approved Investments**

Only investments that are issued or guaranteed by a financial institution that belongs to a classification of securities detailed in Section 183 of the Community Charter will be approved. In Appendix B, column one sets out these approved classifications.

**2. Credit Ratings**

To avoid investing in securities that have higher credit risks, each investment must achieve a credit quality rating in its respective security class that is considered high grade prime credit. Columns two and three in Appendix B set out the minimum acceptable credit rating of each class as determined by the major ratings agencies.

### **3. Diversification**

Each approved classification of security will be limited to ensure diversification by avoiding over-concentration in a specific classification. Column 4 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. The portfolio share of each class of investment will vary depending on the prevailing and forecasted interest rates. At specific times, the portfolio parameters may be exceeded as a result of timing issues. Column 5 sets out the maximum allowable exposure for each specific issuer or guarantor in a security class. Where a specific limit per issuer is not specified, the City shall diversify its investments to the best of its ability.

### **4. Competitive Selection**

The purchase and sale of securities shall be transacted through a competitive process with financial institutions.

### **5. Maturities**

To the extent possible, the City will attempt to match its investments with anticipated cash flow needs. Unless matched to a specific cash flow need, the City shall limit its short-term investments to securities maturing within 1 year from the date of purchase.

### **6. Investing Limits**

Long-term investments should not exceed 75% of prior year's total reserves. As well, investments should not be made in securities maturing more than ten years from the date of purchase.

## **PERFORMANCE STANDARDS**

The investment portfolio will be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow requirements. The investment portfolio will be managed in accordance with the parameters specified within this policy. The rate given by the City's bank for cash balances will be used as the measure of performance.

## **INVESTMENT PROCEDURES**

The following procedures have been established to ensure that the implementation of the investment program is consistent with this policy.

### **1. Authorization**

The authorization process is accomplished by completing an "Investment Purchase Authorization" form (Appendix C). All transactions to purchase investments require an authorizing signature from the Accounting Manager, Assistant Director, or Director of Finance. In their absence, authorization can be obtained by any Finance departmental manager. In addition to the appropriate signature, the form requires the following documentation:

- A minimum of three quotations obtained for each short-term transaction
- A reasonable number of quotations obtained for each long-term transaction, considering the existing market conditions, prior to placement
- If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale shall be included.

### **2. Reporting**

The investment portfolio is to be reported monthly to the Director of Finance or their delegate to provide a clear picture of the status of the current investment portfolio and recent investment activities.

The short-term investment report will include the following:

- A listing of current holdings by investment type held at the end of the reporting period by cost & market value;
- The investment term in days and rate of returns of matured investments;
- Description, date and amount of each security transaction during the month;
- Percentage of the total portfolio which each type of investment class represents;
- Institutional holdings of all investments

The long-term investment report will include the following:

- A listing of current holdings by investment type held at the end of the reporting period by cost & market value;
- A detailed listing of bonds held, including investment cost, market value, interest realized YTD and maturity date
- Description, date and amount of each security transaction during the month

## **Appendix A - Definitions**

**City:** The City of Victoria

**Banker's Acceptance:** this instrument is essentially a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed by the borrower's bank. These instruments are actively and openly traded in the money markets and as a result are extremely liquid.

**Commercial Paper:** an unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**Credit Quality:** the measurement of the financial strength of a debt issuer. Credit quality ratings are provided by nationally recognized ratings agencies such as the Dominion Bond Rating Service (DBRS), Moody's Investors Service (Moody's) and Standard and Poor's (S&P).

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

**Guaranteed Investment Certificates (GIC's):** A term deposit with a specific term to maturity issued by a bank. They are often negotiable and issued at face value and pay interest at maturity.

**Liquidity:** an asset that can be converted easily and quickly into cash.

**Long Term Investments:** investments with a maturity greater than one year. These include bonds, bond funds, intermediate funds, and guaranteed investment certificates (GICs) over 12 months.

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

**Market Value:** the current market price of a security.

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

**Schedule I Bank:** a domestic bank authorized under the *Bank Act* to accept deposits.

**Schedule II Bank:** a foreign bank subsidiary authorized under the *Bank Act* to accept deposits. These subsidiaries are controlled by eligible foreign institutions and may be wholly owned by non-residents.

**Short Term Investments:** investments that mature within 12 months and whose principal amount may be redeemed immediately. These include money market funds, banker's acceptances, GICs, etc. Investments with a maturity of greater than one year, but that are expected to be called by the issuer within one year may also be included in this category.

**Yield:** the rate of annual income return on an investment, expressed as a percentage.

## **Appendix B – Approved Investments, Diversifications & Ratings**

<b>Approved Classifications of Security:</b>	<b>Minimum Rating:</b> Short-term debt & Commercial paper	<b>Minimum Rating:</b> Long-term debt & Bonds	<b>Maximum Portfolio share (%)</b>	<b>Institutional Limit per Issuer (% of total portfolio)</b>
Pooled investments or securities of the Municipal Finance Authority	None required	None required	100%	N/A
The Government of Canada	None required	None required	50%	N/A
Provincial governments of Canada	R-1 (mid) or equiv.	AA or equiv.	50%	5% per province
Securities of a municipality, regional district or greater board	R-1 (mid) or equiv.	AA or equiv.	25%	5%
Schedule I Banks (Appendix D)	R-1 (mid) or equiv.	AA or equiv.	50%	5%
Fully-insured Canadian Credit Unions <sup>2,3</sup>	None required	None required	50%	5%

<sup>1</sup> Registered under federal or provincial legislation such as the Trust and Loan Companies Act (federal) or the Financial Institutions Act (BC).

<sup>2</sup> Registered under the Credit Unions and Caisses Populaires Act

<sup>3</sup> 100% Guaranteed by provincial deposit insurance programs such as The Credit Union Deposit Insurance Corporation <http://www.cudicbc.ca/> or The Credit Union Deposit Guarantee Corporation <http://www.cudgc.ab.ca/>. As of January 2014, deposits held in BC, AB, SK and MB credit unions are 100% guaranteed.

**Rating Agencies (DBRS, Moody's, S&P) provide ratings on institutional credit quality as follows:**

<b>Commercial Paper &amp; Short-Term Debt<sup>1</sup>:</b>	<b>Bond &amp; Long-Term Debt:</b>	<b>Credit Quality</b>
Symbol:	Symbol:	
R-1(high), P-1, A-1+	AAA, Aaa, AAA	Prime
R-1(mid), P-1, A-1+	AA, Aa2, AA	High Grade
R-1(low), P-1, A-1	A, A2, A	Upper Medium Grade
R-2(high), P-2, A-2	BBB, Baa2, BBB	Lower Medium Grade

**<sup>1</sup> Caution must be exercised when using Moody's short-term rating (P-1) as this rating covers the top 3 rating levels (Prime, High Grade, and Upper Medium Grade). If relying upon this short-term rating, and other agency ratings are not available, then the long-term equivalent rating for that issuer should also be assessed.**

**Appendix C – Investment Purchase Authorization**



# Investment purchase authorization Form

QUOTES	#1	#2	#3
Brokerage House			
Investment Type			
Institution Issuer / Guarantor			
Current Institution Holdings			
Rating and Rating Agency			
Quantity (\$)			
Term in Days			
Annual Yield (%)			

Date: \_\_\_\_\_

Investment Officer Signature: \_\_\_\_\_

Authorization Signature: \_\_\_\_\_



## **Appendix D – Chartered Banks by Schedule**

Schedule I Banks:

Refer to the Canadian Bankers Association (CBA) current listing of Schedule I Banks:

<http://www.cba.ca/en/banks-in-canada/61-banks-operating-in-canada/110-schedule-i-banks>

Or <http://www.cba.ca/en>