



Policy	Investment Policy
Approved By:	Council
Approval Date:	January 13, 2020
Amendment Date:	
Policy Holder:	Director of Financial Services

<b>POLICY:</b>	The Director of Financial Services or designate will invest funds as determined appropriate within the range of investments permitted under the Community Charter, in order to: preserve capital, maintain liquidity necessary to meet cash requirements; and maximize the rate of return with acceptable risk levels.
<b>PURPOSE:</b>	This Corporation of the District of Oak Bay’s Investment Policy, 2020 provides a framework for investment management, intended to: meet legislated requirements; meet cash flow requirements; and, to maximize the rate of return while ensuring funds are managed within an appropriate and prudent level of risk.

**1. MANAGEMENT OF THE POLICY**

This Policy is managed by the Finance Department. Responsibility for the investment of municipal funds have been vested in the Financial Officer pursuant to section 149 of the *Community Charter*. Financial Officer responsibilities have been assigned to the Director of Financial Services by means of the “Labour Relations Administration Bylaw, 1997”.

**2. OBJECTIVES AND PRINCIPLES**

The primary objectives of investment activities shall be (in order of priority): (1) preservation of capital, (2) ensure liquidity, and (3) earn the maximum rate of return.

**2.1. Preservation of Capital**

Investment activities shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Preservation of capital is accomplished through placement of funds with creditworthy institution and through portfolio diversification.

**2.2. Liquidity**

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

### **2.3. Return on Investment**

The investment portfolio shall be designed with the objective of obtaining the greatest rate of return achievable while taking into account the investment risk constraints, liquidity needs and statutory limitations. The District's performance objective will be to exceed the greater of: (1) performance of the Municipal Finance Authority money market fund return, and (2) the interest rate provided by the District's bank for cash balances.

## **3. STANDARD OF CARE**

### **3.1. Prudence**

Portfolio management shall be performed with reasonable judgement, discretion and care, under prevailing market conditions. Foremost will be consideration for the safety of capital. The Director of Financial Services must be aware of reasonably foreseeable risks, trends and fluctuations in the market, and be able to recognize unreasonable risks whilst ensuring the liquidity of the investment portfolio. Investments will not be made for speculation nor will cash or investments be managed in a way that could be considered speculative.

### **3.2. Ethics and Conflict of Interest**

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. Any material interest or position in a financial institution or investment that could affect the performance of the investment portfolio shall be disclosed to the Chief Administrative Officer.

### **3.3. Competitive Bids**

The District shall solicit competitive quotations for the purchase of securities when it is prudent to do so. 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.

## **4. INVESTMENT PARAMETERS**

### **4.1. Authority**

The District is empowered by Section 183 of the *Community Charter* to investment in the following types of securities:

- 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 the *Community Charter* or another Act.

#### 4.2. Diversification

The District's investment portfolio must be diversified by security type, maturity, and security-issuing institution. The composition of the District's portfolio will be subject to Table 1.

Table 1: Diversification limitation

Approved Classification of Security:	Minimum Rating: Short-term debt & Commercial paper <sup>1</sup>	Minimum Rating: Long-term debt & Bonds <sup>2</sup>	Maximum Portfolio share %	Institutional Limit per Issuer (% of total portfolio)
Pooled investments or securities of the Municipal Financial Authority	None required	None required	100%	No limit
The Government of Canada	None required	None required	100%	No limit
Provincial governments of Canada	R-1 (high) or equivalent	Aaa or equivalent	100%	No limit
Provincial governments of Canada	R-1 (low) or equivalent	A2 or equivalent	75%	25% per Province
Securities of a municipality, regional district or greater board	R-1 (high) or equivalent	Aaa or equivalent	40%	15%
Securities of a municipality, regional district or greater board	R-1 (low) or equivalent	A2 or equivalent	35%	15%
Schedule 1 Banks <sup>1</sup>	R-1 (mid) or equivalent	Aa3 or equivalent	35%	15%
Schedule 1 Banks <sup>1</sup>	R-1 (low) or equivalent	A2 or equivalent	15%	10%
Fully-insured Canadian Credit Unions <sup>3,4</sup>	R-1 (low) or equivalent	A3 or equivalent	20%	10%
Partially-insured Canadian Credit Unions <sup>5</sup>	R-1 (low) or equivalent	A3 or equivalent	20%	10%
Fully-insured Canadian Credit Unions <sup>3,4</sup>	Unrated	BBB- or equivalent or Unrated	15%	10%
Partially-insured Canadian Credit Unions <sup>5</sup>	Unrated	BBB- or equivalent or Unrated	15%	Insured maximum

1. Expressed in terms of DBRS credit rating scale.
2. Expressed in terms of Standard & Poor's credit rating scale.
3. Registered under the *Credit Unions and Caisses Populaires Act*.
4. 100% Guaranteed by provincial deposit insurance programs such as the Credit Union Deposit Insurance Corporation or the Credit Union Deposit Guarantee Corporation.
5. As of January 1, 2020 the following Provinces have Credit Union deposit insurance up to a specified

maximum: NB, NL, NS, ON, QC & PE.

Seasonally, the District may exceed the limits prescribed in Table 1. For instance, the property tax season is concentrated and will often result in large sums being deposited into the District's primary bank account. Therefore there will be no maximum amount for deposits at the District's primary banking relationship for short periods of time (not to exceed 15 business days).

#### **4.3. Other Investment Parameters**

- a) The aggregate of all investments that the District may have in any single financial institution shall not exceed 1% of that financial institution's deposits.
- b) The portfolio share of BBB rated investments shall not exceed 25% of the total portfolio.
- c) All investments must be denominated in Canadian dollars.
- d) If an authorized investment per section 183 of the *Community Charter* is unrated, it shall be deemed to be rated BBB-.

#### **4.4. Cash Flow**

To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs outlined in the five year financial and long term financial plans. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should set aside a reasonable contingency of liquid securities available for use when unanticipated cash flow demands arise. Staff shall plan to hold bonds until maturity to reduce the risk of losing bond principal due to interest rate risk.

### **5. REPORTING AND REVIEW**

This policy shall be reviewed periodically by the Director of Financial Services to ensure congruence with changing activities of the District, market conditions, technology, evolving regulatory standards and industry best practices. The Director of Financial Services will provide information to Council regarding the investment portfolio annually within the financial statements, or financial plan or whenever it becomes immediately relevant.

## Appendix 1: Ratings Equivalency Chart

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

### Split Ratings

In event where the Rating Agencies listed above do not agree on the credit rating for a security, the security will be classified according to the following methodology:

- If two agencies rate a security, use the lower of the two ratings;
- If three agencies rate a security, use the most common;
- If all three agencies disagree, use the middle rating; and
- If four agencies disagree, use the average of all four ratings.