

Appendix D

CORPORATE POLICY



Policy Title: **Investment Policy**
Policy Category: **Financial Control Policy**
Policy No.: FC-024
Department: Corporate Services
Approval Date: September 19, 2005
Revision Date: December 9, 2024
Author: Kim Reger
Attachments:
Related Documents/Legislation:
Municipal Act, 2001, S.O. 2001, c.25
O. Reg. 438/97: Eligible Investments, Related Financial Agreements and Prudent Investments

POLICY STATEMENT:

The Council for the City of Waterloo is committed to demonstrating financial leadership and sustainability. This policy will govern the investment of excess cash from all funds including, but not limited to, operating funds, capital funds, reserve and reserve funds, sinking funds, retirement funds, and trust funds, if any, of the City of Waterloo (herein “City”) in accordance with the Municipal Act, 2001 (herein “Act”) and related Ontario Regulation 438/97 (herein “Regulation”), as amended or updated by the Province of Ontario from time to time.

PURPOSE:

To outline the investment goals and objectives of the City of Waterloo and define the parameters within which staff may invest excess funds not required immediately.

DEFINITIONS:

Active Investment Management: an investment strategy that uses expectations about individual securities and the overall investment environment to build a portfolio aligned with those expectations. Focus is on buying and selling specific securities based on current expectations.

Asset Backed Securities: fixed income securities (other than a government security) issued by a special purpose entity, comprised of a pool of underlying assets.

City: The Corporation of the City of Waterloo

Mandatory Policy, *Municipal Act*: No

Policy Administration Team, Review Date: October 18, 2024

Corporate Management Team, Review Date: October 16, 2024

City Treasurer: the individual appointed by the City as treasurer.

Chief Financial Officer (CFO): senior executive responsible for managing the financial actions of the municipality.

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

ESG Investments: Environmental, Social and Governance investments.

Laddering: buying multiple financial products of the same type—such as bonds or certificates of deposit (CDs)—each with different maturity dates. By spreading an investment across several maturities, investors seek to reduce their interest rate and reinvestment risks.

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

Market Value: the 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.

One Investment: a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by Regulation. The program is operated by LAS (Local Authority Services Ltd. a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario).

Passive Investment Strategy: an investment strategy that does not lead to individual or specific security changes when expectations change. Focus is on indexed investing or utilization of a buy and hold strategy of securities.

Schedule I Banks: domestic banks that are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Banks: foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Schedule III Banks: foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.

Supranational Bonds: bonds issued by entities formed by two or more central governments.

SCOPE:

This investment policy shall govern the City's investment activities and portfolio which consists of:

- i) Operating Funds;
- ii) Reserves;
- iii) Reserve Funds; and
- iv) Trust Funds.

This policy applies to all members of the City's organization including members of Council, full, part-time and contract staff.

POLICY COMMUNICATION:

Council will receive this policy for approval. The approved policy will be posted on the City's intranet. Staff will be advised of the policy via distribution to leadership teams. The administration and management of investments is done within the Financial Planning section and the policy will affect a limited number of staff overall.

POLICY:

Investment Goal

The goal of this policy is to invest all available excess funds of the City in a prudent manner so as to maximize the rate of return while minimizing the degree of risk, ensuring an adequate level of liquidity, and investing in accordance with the Act and Regulation.

Investments shall be made with judgement and care under the circumstances then prevailing.

Objective of Investment Policy

The objectives of the City's investment policy are as follows:

- To meet the legislative requirement of the Act and Regulation.
- To preserve principal and to ensure that default of principal does not occur.
- To maintain adequate liquidity by ensuring that investment instruments are easily converted to cash.
- To maximize the rate of return on the investment portfolio with due consideration for minimizing risk.

- To actively support ESG investments.

It is only after the first three objectives have been satisfied that the markets should be examined for the optimal rate of return.

The Act and Regulation establishes minimum credit ratings for eligible investments. The minimum ratings established by the Act and Regulations **supersede** the City investment policy and is deemed to be the minimum rating for the City investment policy.

Standard of Care

Investments shall:

- i) be made with judgment and care;
- ii) not be for speculation, but for investment;
- iii) be made with the best interests of the City.

Delegation of Authority and Authorization:

The City CFO and Treasurer are responsible for the investment of all excess cash not required immediately by the City. The City CFO or Treasurer may delegate investment functions, as appropriate, to subordinate staff and will ensure adequate internal controls over investment policies and procedures.

The purchase of investments requires at least two individuals to process such a transaction, those being either of: Chief Financial Officer (CFO) or Treasurer, with the Manager, Financial Planning and the Manager, Payroll & Accounting being authorized alternates for approval purposes and a Financial Analyst for investment transaction processing. In a typical example, the Financial Analyst would review and recommend a purchase, and either the CFO or Treasurer would approve it, with some financial institutions required approval from two parties (CFO & Treasurer or authorized alternate).

Eligible Investments

All investments by the City will be subject to Sections 418 and 420 of the Act and Ontario Regulation made under the Act, as amended or updated by the Province of Ontario from time to time.

If the City investment policy contravenes the Act and/or Regulation as a result of amendments to those governing authorities, or if the City investment policy does not specifically address an issue, the Act and/or Regulation will be the authority and is deemed to **supersede** the City investment policy.

The City's eligible investment indebtedness ratings are the same as the indebtedness ratings for securities that are outlined in O.Reg., Section 3 'Ratings, Financial Indicators'. No further restrictions are applied via this policy.

Limits

A diversified portfolio is a strong measure in preserving the City of Waterloo's investment principal and interest revenue stream. Portfolio limits for each investment type is attached to this policy.

The percentage limitation applies at the time the investment is purchased. In between purchases, the investment portfolio mix can change due to maturing of investments or change in bond prices because of yield fluctuations. This could cause investments to exceed their limits. In those circumstances staff should not divest investments simply to meet investment limits since that is not the objective of the policy. The investment policy establishes a framework for purchasing good investments. Therefore, selling them prematurely would deprive the City of higher returns from good investments in order to simply meet a limit.

Currency

As per Section 6 of the Regulation, the City of Waterloo will not invest in a security that is expressed or payable in any currency other than Canadian dollars.

Reporting Requirements

The Treasurer will provide an investment report to Council on an annual basis. The investment report should include all required reporting specified in the Regulation at a minimum (see Section 8 of the Regulation for reporting requirements).

Surplus Allocation

When actual investment income exceeds budgeted investment income, the surplus is transferred to the following reserves at the end of each fiscal year:

- 25% to the Climate Action Reserve Fund (CARF)
- 25% to the Capital Infrastructure Reinvestment Reserve Fund (CIRRF)
- 25% to the Capital Reserve Fund (CRF)
- 25% to the Library Expansion and Rehabilitation Reserve Fund (LXPR)

COMPLIANCE:

In cases of policy violation, the City may investigate and determine appropriate corrective action.

Appendix – Portfolio Limits

	Category		Sub-Category	Max Portfolio Limit	Limit per Issuer
1	Government of Canada			No Limit	No Limit
2	Provincial Governments			No Limit	No Limit
3	Countries other than Canada			50%	20%
4	Municipalities				
		A	Municipality with Region of Waterloo	50%	No Limit
		B	Any other Municipalities in Canada	20%	No Limit
5	The Ontario Strategic Infrastructure Financing Authority			20%	20%
6	School Board (in Canada)				
		A	Within Region of Waterloo	50%	20%
		B	Outside of Region of Waterloo, within Canada	20%	No Limit
7	University in Ontario				
		A	Within Region of Waterloo	50%	No Limit
		B	Outside of Region, within Ontario	20%	No Limit
8	Ontario Colleges				
		A	Colleges in Region of Waterloo	50%	No Limit
		B	Ontario Colleges outside of the Region of Waterloo	20%	No Limit
9	Local Board or Conservation Authority			20%	No Limit
10	Board of Public Hospital				
		A	Public Hospital within Region of Waterloo	50%	No Limit
		B	Public Hospital outside of the Region of Waterloo	20%	No Limit
11	Non-Profit Housing Corporation			10%	No Limit
12	Local Housing Corporation			10%	No Limit
13	Schedule I Banks			No Limit	35%
14	Schedule II Banks			50%	20%
15	Schedule III Banks			50%	20%

	Category		Sub-Category	Max Portfolio Limit	Limit per Issuer
16	Credit Unions			20%	No Limit
17	Loan or Trust Corporation			20%	No Limit
18	Supranational Financial Institution or Supranational Government Organization			20%	No Limit
19	Asset Backed Securities*			50%	20%
21	ESG Investments			\$10 million	35%
20	ONE FUND	A	Money Market Fund	No Limit	No Limit
		B	Bond Fund	No Limit	No Limit
		C	Universe Corporate Bond Fund	No Limit	No Limit
		D	Equity Fund	20%	No Limit
		E	HISA	No Limit	No Limit

Note: All investment categories are subject to required financial ratings and restrictions outlined in the Regulation.