



SAINT JOHN

**Title: Investment Policy**

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## TABLE OF CONTENTS

1. POLICY .....	2
DEFINITIONS .....	2
SCOPE .....	3
OBJECTIVES.....	3
STANDARD OF CARE .....	4
ETHICS AND CONFLICT ON INTEREST .....	4
2. INDIVIDUAL RESPONSIBILTIES .....	5
DELEGATION OF AUTHORITY.....	5
AUTHORIZED INVESTMENT DEALERS AND FINANCIAL INSTITUTIONS .....	6
3. INVESTMENT OPPORTUNITIES.....	6
4. RATINGS AND CONSTRAINTS .....	7
RISK TOLERANCE.....	7
PORTFOLIO CONSTRAINTS .....	7
OTHER CONSTRAINTS.....	8
5. REPORTING .....	8
REPORTING .....	8
DEPARTMENT INVESTMENT POLICY GUIDELINE ADOPTION.....	8
6. APPENDICES .....	9

## **SECTION I: POLICY**

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### **1. POLICY STATEMENT**

The City of Saint John invests funds not required for operating cash flow, to ensure maximized return on its investment for the desired risk level.

### **2. RESPONSIBILITY**

It is the responsibility of the Commissioner of Finance and Administrative Services to ensure that this Policy is followed.

## **PURPOSE OF THE POLICY GUIDELINES**

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The purpose of this policy guideline is to document a framework for the prudent management of the City of Saint John's investment portfolio "Funds" within an acceptable investment risk tolerance level.

It is the policy of the City of Saint John to invest public funds in a manner which will provide the optimal blend of investment returns and principal protection while meeting the daily cash flow and liquidity demands of the City of Saint John, and complying with statutory requirements of the *Municipalities Act*, the *Control of Municipalities Act*, and the *Trustees Act* of the Province of New Brunswick.

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### **1. DEFINITIONS**

**Funds:** For investment purposes, funds are defined as cash which is not required for day to day operations.

**Benchmarks:** For the purpose of measuring the performance of the portfolios, the following comparators will be used.

- Short-term investments – Government of Canada 3 month Treasury Bill average
- Medium-term investments – Government of Canada 3 year Benchmark Bond average
- Long-term investments – Government of Canada long-term Benchmark Bond average

#### **Investments:**

- Short-term investment portfolio consists of cash or liquid securities with a maturity date of one year or less.
- Medium-term investment portfolio consists of securities with an original maturity date from one to five years.

# City of Saint John

## Investment Management Policy Guidelines



- Long-term investment portfolio consists of securities with an original maturity date that exceeds five years.

**Liquidity:** defined to the City of Saint John as the ability to access funds within a maximum of 30 days after requesting redemption of investments funds.

### 2. SCOPE

This Policy Guideline applies to the investment of all cash assets held for short-term, medium, and long-term uses in the City's various funds.

#### Investment Portfolio of Funds

- General, and Water and Sewer Operating Funds
- Operating and Capital Reserve Funds
- Land Sales, Subdivision, Parking Land, and other separate funds
- Retirement allowance account, development obligations, and other deposits held for future payment of long-term liabilities

The City's funds will be invested according to the liquidity needs for operating cash flow, return on investment requirements of long-term obligations, and the protection of principal for medium term uses.

### 3. OBJECTIVES

#### Principal Protection

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the safety of principal, and the preservation of the purchasing power of principal in the overall Fund in the short, medium, and long-term. The goal is to manage credit risk, interest rate risk, and inflation risk.

#### Liquidity

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

#### Return on Investment

The Fund shall be constructed with the objective of attaining, at minimum, a benchmark rate of return throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the preservation of capital and liquidity objectives.

#### **4. STANDARD OF CARE**

##### **Prudence**

Investments shall be made exercising the care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person, considering the probable safety of principal as well as the probable income to be derived, and having regard to the circumstances of the funds, including:

- (a) its assets,
- (b) its beneficiaries or purposes,
- (c) its probable duration, and
- (d) a reasonable balance between risk and return.

The carrying out of investment activities in accordance with this policy guideline, and with the judgment, diligence, 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, shall relieve the investment officers of personal liability, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

##### **Internal Controls**

Management shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties.

#### **5. ETHICS & CONFLICT OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity with the same individual(s) with whom business is conducted on behalf of the City.

Individuals involved with the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program or impair their ability to make impartial investment decisions.

Individuals involved with the investment process shall not knowingly permit a situation to arise in which:

- (a) the individual's personal interest conflicts with the exercise of the powers or performance of this policy, or where
- (b) the individual may derive any personal benefit or a benefit for any other person.

## **SECTION II: INDIVIDUAL RESPONSIBILITIES**

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### **1. DELEGATION OF AUTHORITY**

Authority to manage the City of Saint John's investment program is derived from the *Investment Management Policy Statement*.

The City delegates the management of the Funds to various agents including certain Officers of the City. The agents and Officers of the City include:

- the Commissioner of Finance and Administrative Services,
- the Comptroller, and
- the Senior Manager of Financial Planning, Reporting & Analysis and
- the Assistant Comptroller

Management of the investment portfolio Funds and responsibilities have been allocated as follows:

#### **Council**

- State the goals of the Corporate Program and articulate the desired results for the community.
- Receive and adopt an Investment Policy to achieve those results.

#### **Officers' Responsibilities**

- Review the Policy and if appropriate make recommendations to Common Council for changes.
- Ensure that the Cash-flow and Investment Management Service provided by the City meets the goals of the Corporate Program and achieves desired community results and policy objectives.
- Select investment dealers and institutions (the "Brokers") to assist the Commissioner in meeting performance objectives for the Fund.
- Review the Fund's performance on a regular basis and provide a report to the Finance Committee annually.
- To be responsible for the delegation of any responsibility not specifically mentioned in the policy or policy guideline.
- Validate and report the rates of return on the Funds, based on book and market value.
- Select specific investments for the Funds, recognizing the quality and diversification requirements established in this policy guideline, and subject to approved signing authority.
- Seek to maximize and preserve the investment return on the Funds, after ensuring that the foregoing liquidity, quality and diversification requirements have been satisfied.
- Manage the securities held by the Funds in accordance with the Policy, policy guidelines, and applicable legislation.
- Work to meet the benchmarks and targets.

The designated Officers of City of Saint John may from time to time engage consultants or other advisors to assist them in fulfilling their responsibilities.

## **2. AUTHORIZED INVESTMENT DEALERS AND FINANCIAL INSTITUTIONS**

All investment dealers and financial institutions used for investment transactions will be members in good standing of the Investment Industry Regulatory Organization of Canada (“IIROC”), Mutual Fund Dealers Association (“MFDA”) or the New Brunswick Securities Commission.

Preference will be given to investment dealers and financial institutions who are members of the Responsible Investment Association (“RIA”).

## **SECTION III: INVESTMENT OPPORTUNITIES**

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The following are the investments permitted in the Fund.

- Eligible Securities as defined in the policy guideline.
- Investments in internally financed City of Saint John’s projects.

All investments must be denominated in Canadian dollars.

Investments in derivatives, swaps, options, forward contracts, or futures are prohibited, unless they are an interest rate or exchange rate hedging strategy related to a specific transaction, or group of transactions, and authorized by the Commissioner of Finance and Administrative Services.

Investments in shares, warrants, convertible debt securities, or other equities, are prohibited unless they are equity securities of a Canadian Schedule “I” Chartered Bank.

Funds may be invested or reinvested in one or more of the following:

- a) securities of the New Brunswick Municipal Finance Corp;
- b) securities that are obligations of, or are guaranteed by Canada or a province;
- c) investments guaranteed by a Canadian chartered bank;
- d) deposits in a savings institution, or non-equity shares of a credit union whose deposits are 100% guaranteed by a Provincial Government or the Federal Government;
- e) commercial paper or bonds issued by a company incorporated under the laws of Canada or a province, the securities of which are rated in the highest rating category by at least 2 recognized security rating institutions;

All investment categories that are not explicitly permitted are prohibited.

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## SECTION IV: RATINGS AND CONSTRAINTS

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### 1. RISK TOLERANCE

Investments shall be made with the degree of judgement and care that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but with priority given firstly to safety of capital, secondly liquidity and thirdly to investment yield. The standard of prudence to be executed by City staff making investment decisions shall be the “prudent person” standard. 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 that deviations from expectations are promptly reported in a timely manner and appropriate action is taken to limit losses in the event of adverse developments.

Investments held in the Fund must be rated by at least one rating agency, namely Moody’s, Standard & Poor’s (S&P) or Dominion Bond Rating Service (DBRS). All investments must be Investment Grade (at least A by S&P, or equivalent by DBRS or Moody’s.), as classified in Appendix A. In the case where a security is rated by more than one agency listed, the higher ratings will apply.

The total Fund will be limited to the following credit rating thresholds on a weighted average basis (as defined by S&P or equivalent):

Rating	Up to %
AAA	100%
AA	90%
A	70%

The maximum exposure to a single investment security is defined in Appendix II. Due to market fluctuations, maximum percentages may be exceeded at a point in time. Securities need not be liquidated to rebalance the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

### 2. PORTFOLIO CONSTRAINTS

The primary constraints relate to safety of invested capital and maintaining the liquidity of the portfolio.

- All securities held in the portfolio shall have a maturity as defined by short-term, medium term and long-term investments.
- **Cash & Marketable Securities:** The deemed rating for cash, including the current account, High Interest Savings Accounts, redeemable GIC’s, Bankers’ Acceptance (BA’s), Bank Deposit



Note (BDA's) and marketable securities will be equal to the rating of the institution it is being held in.

- **Credit Union Deposits:** The deemed rating for securities issued by a Credit Union will be equal to the rating of the province that the credit union resides in and is guaranteed by.
- **Bank Deposits:** The deemed rating for securities issued by a bank will be equal to the credit rating of that bank.
- **Securities issued by a Government entity:** The deemed rating for securities issued by a Government entity will be equal to the credit rating of that province, country, or equivalent.

### **3. OTHER CONSTRAINTS**

- The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading.
- All investments are to follow the above listed constraints laid out per this policy guideline. An exception can be made when the Officers for City of Saint John listed under delegation of authority are in agreement that there is an investment opportunity that lies outside the constraints governing this policy guideline. Any such investment must comply as an eligible investment defined in this policy guideline. A maximum investment allocation not exceeding 15% of the City of Saint John's total portfolio will be permitted.

## **SECTION V: REPORTING**

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### **1. REPORTING**

The designated officers will provide an annual report to the Finance Committee on the performance of the portfolio the following year.

### **2. DEPARTMENT INVESTMENT POLICY GUIDELINE ADOPTION**

The City of Saint John's investment policy guidelines shall be implemented by the Commissioner of Finance and Administrative Services. The policy guidelines shall be reviewed periodically as required due to changes in the economy or City's requirements and any modifications made thereto must be approved by the City Manager.

## SECTION VI: APPENDICES

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### Appendix I

#### City of Saint John Short Term Investments - Credit Risk Criteria

Investment Credit	DBRS	Moody's	S&P	Term
<b>Government of Canada</b>				
(Minimum 10% per portfolio; max. of portfolio per issuer 100%; max. % of portfolio per category 100%)				
Bonds	AAA	Aaa	AAA	1 year or less
	AA	Aa	AA	1 year or less
Treasury Bills	R1-High	P-1	A-1	1 year or less
	R1-Middle	P-1	A-1	1 year or less
Guarantees and Crown Corporations	R1-High	P-1	A-1	1 year or less
	R1-Middle	P-1	A-1	1 year or less
<b>Provincial Governments and Guarantees</b>				
(Max. 50% of portfolio; max. of portfolio per issuer 100% )				
Bonds	AAA	Aaa	AAA	1 year or less
	AA	Aa	AA	1 year or less
	A	A	A	1 year or less
Treasury Bills, Promissory Notes, Guarantees	R1-High	P-1	A-1	1 year or less
	R1-Middle	P-1	A-1	1 year or less
	R1- Low	P-1/P-2	A-1/A-2	1 year or less

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# City of Saint John

## Investment Management Policy Guidelines



### City of Saint John Short Term Investments - Credit Risk Criteria

Investment Credit	DBRS	Moody's	S&P	Term
<b>Major Canadian Bank "Schedule I"</b>				
(Maximum 50% of portfolio; max. of portfolio per issuer \$50M)				
	R1-High	P-1	A-1	1 year or less
	R1-Middle	P-1	A-1	6 months or less
	R1- Low	P-1/P-2	A-1/A-2	3 months or less
<b>Commercial Paper</b>				
(Maximum 25% of portfolio; max. of portfolio per issuer 25%)				
Asset-Backed Commercial Paper (Secured by a Schedule 1 Bank Guarantee)	AAA (R1 High)	Aaa (P-1)	AAA (A-1)	1 year or less

### City of Saint John Medium and Long- Term Investments - Credit Risk Criteria

<b>Government of Canada</b>				
(Minimum 25% of portfolio; max. of portfolio per issuer 20%)				
	AAA	Aaa	AAA	Unlimited
	AA	Aa	AA	Unlimited
<b>Provincial Governments and Guarantees</b>				
(Maximum 50% of portfolio; max. of portfolio per issuer 50%)				
	AAA	Aaa	AAA	Unlimited
	AA	Aa	AA	30 years or less

**Appendix II**

**Eligible List of Counterparties (Investment Entities)**

Investments by or on behalf of the City of Saint John shall be made in accordance with the Investment Policy. The City of Saint John may invest in the following entities:

<b>The Government of Canada and its Guarantees</b>	
Federal Government	Business Development Bank
Canada Mortgage and Housing Corporation	Canadian Wheat Board
Export Development Canada	Farm Credit Corporation

<b>Provincial Governments and their Guarantees</b>	
Province of Alberta and its Guarantees	Province of Ontario and its Guarantees
Province of British Columbia and its Guarantees	Province of Quebec and its Guarantees
Province of Manitoba and its Guarantees	Province of Saskatchewan and its Guarantees
Province of New Brunswick and its Guarantees	Province of Nova Scotia and its Guarantees

<b>Financial Institutions and their Guarantees</b>	
Bank of Montreal and its Guarantees	Royal Bank of Canada and its Guarantees
Bank of Nova Scotia and its Guarantees	Toronto Dominion Bank and its Guarantees
CDP Financial Inc.	National Bank of Canada
Desjardins Group	Caisse Central Desjardins
Canadian Imperial Bank of Commerce and its Guarantees	
Credit Unions whose deposits are 100% guaranteed by a Provincial or the Federal Government	