



Title:
Investment Policy

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Investment Policy

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1. Policy Statement

1.1. Statement

The Municipality of Casselman (the Municipality) shall invest public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the Municipality and conforming to legislation governing the investment of public funds.

The purpose of this investment policy is to ensure the integrity of the investment management process. The objective of this investment policy is to maximize investment income at minimal risk to capital. Accordingly, emphasis on investments is placed on compliance first, security second, liquidity third and competitive rates of return fourth.

2. Policy Definitions

2.1. Definitions

CHUMS Financing Corporation: one of the entities that owns ONE Investment, a non-profit that manages co-mingled investments in which local governments and the broader Ontario public sector can invest.

Credit Risk: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

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

Duration: a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Interest Rate Risk: the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

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

Local Authorities Services (LAS): one of the entities that owns ONE Investment, a non-profit corporation that manages co-mingled investments in which local governments and the broader Ontario public sector can invest.

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. See "Weighted Average Maturity".

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One Investment Program: a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O.Reg 438/97. The program consists of Money Market Funds, Bond Funds and Equity Funds. The ONE Investment 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).

Safekeeping: holding of assets (e.g., securities) by a financial institution.

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: are 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.

Weighted Average Maturity (WAM): the average maturity of all the securities that comprise a portfolio.

3. Policy Application

This investment policy shall govern the investment activities of the Municipality's General account and its Reserves. This policy applies to all investments made by the Municipality on its own behalf and any new funds created by the Municipality.

4. Policy Requirements

4.1. Objectives

The primary objectives of the Investment Program, in priority order, shall be:

4.2. Adherence to Statutory Requirements

All investment activities shall be governed by the Ontario Municipal Act, 2001 as amended. Investments, unless further limited by Council, shall be those eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

4.3. Preservation of Capital (Minimization of Credit Risk)

Meeting this objective requires the adoption of a defensive policy to minimize the risk of incurring a capital loss and of preserving the value of the invested principal. As such, this risk shall be mitigated by investing in properly rated financial instruments in accordance with applicable legislation, by limiting the types of investments to a maximum percentage of the total portfolio and being mindful of the amount invested within individual institutions.

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4.4. Maintenance of Liquidity

The investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing. The portfolio shall be structured to maintain a proportionate ratio of short, medium, and long-term maturities to meet the funding requirements of the Municipality. The term liquidity implies a high degree of marketability prior to maturity.

4.5. Competitive Rate of Return

The Municipality's funds shall be invested to maximize the rate of return within acceptable risk levels while respecting the legal constraints, security of principal, and the adequate liquidity and diversification needs of each investment portfolio.

4.6. Standards of Care

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 probable safety of their capital as well as the probable income to be derived.

Delegation of Authority

The Treasurer has overall responsibility for the prudent investment of the Municipality's portfolio. Transactional investment activities may be delegated by the Treasurer. The Chief Administrative Officer and the Treasurer or others, as directed by Municipal Council, are authorized to execute and sign investment agreements on behalf of the Municipality.

Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Municipality. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Municipality.

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4.7. Suitable and Authorized Investments

The municipality may invest in the Legal List of eligible securities as permitted by Ontario Regulation 438/97 to the Municipal Act, as amended, within the limitations set out in Table 1:

Table 1 - Authorized Investments & Sector Guidelines		
Sector / Securities	Minimum credit rating¹	Portfolio Limit
Government of Canada or Agencies	N/A	100%
Provincials	N/A	100%
Municipals	N/A	50%
School Boards	AA (low)	20%
Schedule I Banks	R-1 (mid)/A(low)	100%
Schedule II, III Banks	R-1 (mid)/A(low)	10%
Supranational, International Bank of Reconstruction and development	AAA	10%
Caisse Desjardins Ontario	R-1 (mid)/A(low)	100%
Other Corporations	R-1 (mid)/A	20%
One Investment Program – High Interest Savings Account	N/A	100%
One Investment Program – Money Market Fund	N/A	100%
One Investment Program – Corporate Bond Fund	N/A	50%
One Investment Program – Government Bond Fund	N/A	50%
One Investment Program – Equity Fund	N/A	40%

¹Rating as issued by Standard and Poor's (S&P). An equivalent or alternative rating from another Credit Rating Agency is permissible as listed in the Municipal Act.

4.8. Buy and Hold

To achieve the objectives noted in section four, internally managed funds shall, for the most part, follow the buy and hold strategy. Higher yields are best obtained by taking advantage of the interest rate curve of the capital market which normally yields higher rates of return for longer term investments. By purchasing securities at varying maturity dates and holding the investments to term the interest rate risk is minimized, liquidity is maintained, and capital is preserved. To be successful with the buy and hold strategy, matching cash requirements to investment terms is a key element and requires a solid cash flow forecast.

4.9. Diversification

Investments will be diversified by issuer and by the sector of the economy to which they belong. The Treasurer may establish maximum amounts and maximum percentages of the portfolio for each issuer and sector from time to time. Investment in a municipal investment pool as allowed

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by Ontario Regulation 438/97 should be considered an appropriate method of investment diversification.

4.10. Term Composition

The Municipality will apply portfolio term guidelines and hold sufficient funds in short-term instruments to maintain adequate liquidity and meet investment objectives. To the extent possible, the municipality shall balance investment terms with anticipated cash flow requirements to match maturities as closely as practicable with the expected use of funds. Table 2 provides the term composition guidelines for the Municipality's investment portfolio.

Table 2 – Term Composition		
Term Composition of Portfolio	Minimum	Maximum
Less than 6 months	20%	100%
Over 6 months to 18 months	n/a	60%
Over 18 months to 5 years	n/a	40%
Over 5 years to 10 years	n/a	20%

4.11. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the Municipality.

The performances of investments shall be measured using multiple benchmarks and performance indicators. The baseline yield for investments is the interest rate earned by the Municipality on cash held in its bank account. Then, investment yields can be compared to Government of Canada Treasury Bills and Benchmark Bond Yields. Furthermore, prime interest rates and other applicable market rates, such as Banker's Acceptance can be used to provide useful benchmarks with consideration to limitations attributable to the Municipal Act, 2001.

4.12. Reporting

The Treasurer of the Municipality, in accordance with legislative requirements, will submit to Council an annual report on investment activity and returns.

5. Reference and Legislative Authority

5.1. Municipal Act, 2001

5.2. O. Reg. 438/97

5.3. Bank Act