

# THE TOWN OF FORT FRANCES

## Section: Administration & Finance

### Policy: Investments Policy

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#### 1. POLICY STATEMENT

The purpose of this Policy is to provide guiding principles for the prudent management of the Town of Fort Frances investments within an acceptable investment risk tolerance level and will govern the investment of surplus cash, reserve and reserve funds of the Corporation in accordance with Ontario Regulation 438/97 made under the *Municipal Act, 2001*.

It is the policy of the Town of Fort Frances to invest public funds so as to maximize the rate of investment returns and principal protection while meeting the daily cash flow and liquidity demands of the Town of Fort Frances and complying with statutory requirements of the *Municipal Act, 2001*.

#### 2. OBJECTIVES

##### **Principal Protection**

Preservation of capital is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. The goal is to manage credit risk and interest rate risks.

##### **Eligible Investments**

In accordance with Ontario's Eligible Investments, Related Financial Agreements and Prudent Investment Regulation, the Town is not authorized to invest in securities other than those listed in the Regulation.

**Liquidity**

The Investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements that may be reasonably anticipated and limit temporary borrowing requirements. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary markets.

**Return on Investment**

The Investment portfolio shall be constructed with the objective of attaining, at minimum, a fair 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.

**Performance Benchmarks**

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 the budgetary and economic cycles that is appropriate with the investment risk constraints and cash flow needs of the Town. Market yields should be higher than the rate given by the Town's bank for the various bank accounts.

**Market Value**

The market value of the portfolio shall be calculated at least annually as at December 31<sup>st</sup>.

**Maximum Maturities**

To the extent possible, the Town shall attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than ten (10) years from the date of the purchase. Reserve Funds and Trust funds with longer-term horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

**3. STANDARD OF CARE****Prudence**

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable safety of their capital as well as the probable income to be derived.

**Internal Controls**

Management shall establish a system of internal controls. The internal controls shall be designated to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties.

#### **4. 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 Town of Fort Frances. 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.

#### **5. INDIVIDUAL RESPONSIBILITY**

##### **Delegation of Authority**

The Treasurer and/or CAO has overall responsibility of the prudent investment of the Town's portfolio. Authority to manage and implement the investment program may be granted for all or a portion of the Town's overall investment portfolio, to an external investment Agent, to act as an Investment Manager on behalf of the Town. That Agent shall act in accordance with the established procedures and internal controls consistent with this investment policy. Those investments governed by the provisions of One Investments – The Public Sector Group of Funds agreement shall be deemed delegated to that Agent.

##### **Signing Authority**

Transactions related to investments made by the Town require staff approval by the Treasurer. In the absence of that individual, staff approval may be given by the CAO.

Decision making related to investment transactions may be delegated by the Town directly to an Investment Manager, following an independent and competitive bidding process, to the extent that the Treasurer and/or CAO provides that Investment Manager with funds to invest and manage on behalf of the Town of Fort Frances.

##### **Responsibilities**

The Treasurer and CAO may enter into arrangements with Investment Managers, execute and sign documents on behalf of the Town. The Treasurer performs all related acts in the day to day operation of the investment and cash management program, maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Town's investments are properly managed and adequately protected.

The Treasurer and/or CAO shall ensure adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Town's financial assets.

##### **Reporting**

The Treasurer will provide semi-annual reports, at a minimum, to the Administration & Finance Executive Committee, which includes the performance and any risk characteristics of the Town's Investment Portfolio and will provide an annual report to Council on the performance of the portfolio during the first quarter of the following year.

## 6. RATINGS

### Risk Tolerance

All securities must be readily marketable.

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 BBB by S&R, 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 rating will apply.

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

<b>Rating</b>	<b>Up to %</b>
AAA	100%
AA	50%
A	30%
BBB	10%

The maximum exposure to a single investment security, as a percentage of the total portfolio cannot exceed 10%

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.

## APPENDIX A – CREDIT RATINGS

Grade	Moody's		Standard & Poor's		DBRS	
	Long-Term	Short-Term	Long-Term	Short-Term	Long-Term	Short-Term
Investment Grade	Aaa	P-1	AAA	A-1+	AAA	R-1 (high)
	Aa1	P-1	AA	A-1	AA (high)	R-1 (high)
	Aa2	P-1	AA	A-1	AA	R-1 (middle)
	Aa3	P-1	AA	A-1	AA (low)	R-1 (middle)
	A1	P-1	A	A-2	A (high)	R-1 (low)
	A2	P-1	A	A-2	A	R-1 (low)
	A3	P-1	A	A-2	A (low)	R-1 (low)
	Baa1	P-2	BBB	A-3	BBB (high)	R-2 (high)
	Baa2	P-2	BBB	A-3	BBB	R-2 (middle)
	Baa3	P-3	BBB	A-3	BBB (low)	R-2 (low)
Speculative Grade	Ba1	NP	BB	B	BB (high)	R-3
	Ba2	NP	BB	B	BB	R-4
	Ba3	NP	BB	B	BB (low)	R-4
	B1	NP	B	B	B (high)	R-4
	B2	NP	B	B	B	R-5
	B3	NP	B	B	B (low)	R-5
	Caa1	NP	CCC	C	CCC	R-5
	Caa2	NP	CCC	C	CCC	R-5
	Caa3	NP	CCC	C	CCC	R-5
	Ca	NP	CC	C	CC	R-5
	C	NP	R	R	C	R-5
		D	D	D	D	