

Category: Finance

## Investment Policy

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Administered by: Finance

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### 1. Background

The City of Brampton's funds are subject to the requirements of the *Municipal Act, 2001* (The Act). Ontario Regulation 438/97 Eligible Investments, as amended states that before a municipality invests in a security prescribed under the regulation, the Council of the municipality shall adopt a statement of the municipality's investment policies and goals. The regulation also governs eligible investments and prescribes conditions under which the City may make investments.

The Act specifies a municipality must exercise the care, skill, diligence and judgment that a prudent investor would exercise when making investments, regardless of which category of eligible investments a municipality chooses to follow.

## 2. Purpose

The purpose of this Policy is to provide investment guidelines which will direct the investment of the City's funds not immediately required.

## 3. Application and Scope

3.1 This Council Policy applies to all financial assets of the City held within the following funds:

3.1.1 Operating Funds; and

3.1.2 Reserve Funds.

3.2 The City's investment in securities will comply with those prescribed under Ontario Regulation 438/97, as amended.

## 4. Outcomes

4.1 The intended outcomes of this Policy are:

4.1.1 Adherence to legislative and regulatory requirements on eligible investments;

4.1.2 Preservation of the City's capital funds while maximizing investment returns;

4.1.3 Minimize the City's investment risk; and,

4.1.4 Maintain liquidity of the City's funds.

## 5. Principles

5.1 The following principles govern the Investment Management Process for the City of Brampton.

5.1.1 **Financial Stewardship:** The City will exercise care, conservancy, planning, attention, upkeep, and management of its financial resources.

5.1.2 **Preservation of Capital:** The City will invest in a manner that protects and preserves the capital of the portfolio.

5.1.3 **Maintaining liquidity:** The investment portfolio will remain sufficiently liquid to meet all operating and cash flow requirements. Funds not immediately required by the City will be separated into asset pools, each with its own objectives and constraints.

- 5.1.4 **Risk Management:** The City will manage risk by ensuring there is sufficient diversification among the assets in the portfolio. Additional risk control is provided by the constraints on the permitted investments.
- 5.1.5 **Maximize Rate of Return:** the City will design the investment portfolio in a way to maximize investment return in accordance with the *Municipal Act, 2001* and in accordance with this Policy.

## 6. Policy Statements

### 6.1 General

- 6.1.1 All investment activity shall be governed by the Municipal Act, 2001 as amended. Investments, unless limited further by Council, will be those deemed eligible under O.Reg. 438/97, as amended.
- 6.1.2 Canadian and US dollar investments are authorized for the purpose of this Policy.
- 6.1.3 Investments of the City shall be undertaken in a manner that protects and preserves the capital of the portfolio.
- 6.1.4 The City's Investment Portfolio will aim to increase the investment in Green Bond within the set guideline of this policy. Investment of the City shall also include the consideration of ESG (environmental, social and governance) issues, if available, across all assets classes in which it invests.
- 6.1.5 The City's Investment Portfolio will consist of two components which will be managed by a City investment manager.
  - a) Reserve Funds Investment Portfolio and;
  - b) Operating Funds Investment Portfolio.

### 6.2 Preservation of Capital

- 6.2.1 The City shall endeavor to mitigate credit risk by:
  - a) Limiting investments to safer types of securities;
  - b) Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
  - c) Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City does business.

- 6.2.2 The City shall endeavor to mitigate interest rate risk, a risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
- a) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
  - b) Investing operating funds primarily in shorter-term securities or investment pools; and
  - c) Diversifying longer-term holdings to mitigate effects of interest rate volatility.
- 6.2.3 All investments should have a minimum rating with the limitations set out in Schedule A for Reserve Funds Investment Portfolio and Schedule B for Operating Funds Investment Portfolio
- 6.2.4 Publications of relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed by the Treasurer with the appropriate action taken to ensure the City's portfolio remains within the limitations and terms outlined in this Policy.

### 6.3 Diversification

The City will manage risk by ensuring there is sufficient diversification among the assets in the portfolios. In order to ensure proper diversification of the portfolio, additional limitations apply for the maximum allowable exposure for each classification of security as a percentage of the total portfolio. The Schedule A for Reserve Funds Investment Portfolio and Schedule B for Operating Funds Investment Portfolio set out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio.

### 6.4 Maintaining Liquidity

The City will invest in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The City may also utilize temporary borrowing for short-term liquidity needs provided it helps maximize the overall return for the portfolio.

### 6.5 Maximize Rate of Return

6.5.1 Rate of Return on the investment portfolios will be optimized to the extent possible given the investment objectives, safety of principle and the need to maintain adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity of investment objectives.

6.5.2 For the purposes of evaluating the performance of the City's investment portfolios, all rates of return will be compared to performance benchmarks that have been previously established.

6.5.3 The benchmarks may be changed from time to time, as determined by the Treasurer, in order to be comparable to the portfolio in terms of maturity, liquidity and credit quality.

## 6.6 Securities Lending

6.6.1 The City may engage in the practice of securities lending as provided in s.421 of the *Municipal Act, 2001* to enable the City to increase its return on its portfolio(s) by lending certain assets to recognized borrowers for a fee as per standard operating procedures

## 6.7 Reserve Funds Investment Portfolio

6.7.1 Schedule A specifies the sector and allocation percentage per sector that may be held at any time within the Reserve Funds Portfolio.

## 6.8 Operating Funds Investment Portfolio

6.8.1 Schedule B specifies the sector and allocation percentage per sector that may be held at any time within the Operating Funds Investment Portfolio

## 6.9 Reporting

6.9.1 The Treasurer shall prepare and provide an investment report to City Council at least annually that at minimum contains:

- a) A statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- b) A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with this Policy.

## 6.10 Administration

6.10.1 The Treasurer is authorized to execute all investment management related contracts and agreements, and is authorized to create, amend and delete procedures necessary for the implementation/administration of this By-Law, subject to compliance with *Municipal Act, 2001, Ontario Regulation 438/97*, as amended and the approved Investment Policy.

6.10.2 Subject to subsection 6.10.3 and compliance with the *Municipal Act, 2001, Ontario Regulation 438/97*, as amended, and the approved Investment Policy, the Treasurer or either of the following positions is fully authorized and empowered to transfer, endorse, buy, sell, assign and set over, and deliver any or all eligible securities or evidences thereof for City's Operating and Reserve Portfolio ("Investment

Transaction”) and to provide necessary instruction to City’s Investment dealer banks and Investment custodial company to execute any Investment Transaction:

- a) Manager, Banking & Investments
- b) Senior Manager, Financial Planning & Analytics

6.10.3 Before exercising the authority delegated pursuant to subsection 6.10.2 above, the delegate must receive in electronic or paper form the research, analysis and pricing data in support of the trading settlement instruction for the Investment Transaction from one of the following positions that is not the delegate:

- a) Cash Management Analyst
- b) Manager, Banking & Investments

## **7. Roles and Responsibilities**

### **7.1 Council**

7.1.1 Approve this Policy which provides direction on the business rules for investing; and

7.1.2 Oversee the financial stewardship of the City.

### **7.2 Treasurer**

7.2.1 Ensure performance of the investment portfolio including monitoring and taking corrective action;

7.2.2 Establish procedures consistent with the Policy and including explicit delegations of authority to persons responsible for investing activity;

7.2.3 Execute investment management related contracts and agreements; and

7.2.4 Ensure reporting requirements identified within this Policy are met.

### **7.3 Finance Division, Corporate Services Department**

7.3.1 Review this Policy and related standard operating procedures every two year or earlier as required; and

7.3.2 Manage funds under specific investment mandate, complying with all guidelines, policies and procedures.

## 8. Monitoring and Compliance

### 8.1 Periodic Review

8.1.1 The City Treasurer will review and reassess the Policy and investment guidelines outlined in the schedules, at least every two year and more frequently as required.

8.1.2 If, at any time, the guidelines cannot be met or may restrict performance, the guidelines may then be changed provided that the changes are reported to Council.

8.1.3 The City's External Auditor will conduct an annual audit of the City's investments.

### 8.2 Consequences of Non-Compliance

8.2.1 Should the Treasurer find that investments were not made in compliance with this Policy, the Treasurer shall report the inconsistency to Council within 30 days after becoming aware of it.

8.2.2 If at any time a security and/or allocation within the portfolio(s), in the Treasurer's opinion, is not in adherence with the City of Brampton Investment Policy and/or the *Municipal Act, 2001* Eligible Investments, Regulation 438/97, then the security and/or allocation must be liquidated and/or brought into compliance within 180 days.

8.2.3 Failure to follow this Policy may result in a financial risk to the City's investments including:

- a) Poor returns on investments;
- b) Threats to the safety and liquidity of investments; and,
- c) Contravention of legislative and regulatory requirements.

## 9. Definitions

9.1 **Asset Backed Securities** – means securities collateralized (backed) by a pool of assets (loans, mortgages, credit card debt, etc).

9.2 **Credit Rating** – means an assessment of an entity creditworthiness as a borrower; it indicates how likely the borrower is to repay a loan.

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

9.4 **Diversification** – means investing in various asset classes, sectors, maturities and ratings with the purpose of reducing risk. The rationale behind this technique contends that a portfolio of different kinds of investments will, on

average, yield higher returns and result in lower price volatility than any individual investment found within the portfolio.

- 9.5 **Duration** – means 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.
- 9.6 **Interest Rate Risk** – means the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.
- 9.7 **Investment Risk** – means a type of risk that refers to the uncertainty/potential financial loss inherent with an investment decision.
- 9.8 **Liquidity** – means the ability of quickly converting an asset to cash (sell an asset); also, the extent to which an organization has sufficient cash resources to cover short term obligations.
- 9.9 **Maturity** – means the date when the principal amount of a debt instrument becomes due and needs to be repaid.
- 9.10 **ONE Investment Program** – means a pooled investment portfolio managed by professional investment firms. ONE Investment Program is operated by Local Authorities Services Limited and CHUMS Financing Corporation.
- 9.11 **Operating Fund** – means a fund that the City retains on hand to provide for unanticipated operating budget shortfalls as well as to provide bridge financing between the time when expenditures, such as staff payroll and construction contractor payments, are required and the time when major cash inflows, such as tax, user fees and any grants are received.
- 9.12 **Portfolio** – means collection of securities (stocks, bonds, currencies, cash, etc) held by an investor.
- 9.13 **Rate of Return** – means net gain/loss on an investment, expressed as a percentage of the initial investment.
- 9.14 **Reserve Fund** – means a fund that has been established by the City to address Growth-related infrastructure expansion (funded by Development Charges paid by developers), replacement of City Infrastructure, and funding of other special projects as directed and approved by Councils.
- 9.15 **Schedule I Bank** – means Canadian financial institution regulated under the Bank Act, authorized to accept deposits.
- 9.16 **Schedule II Bank** – means Foreign bank subsidiaries regulated under the Bank Act, authorized to accept deposits.



- 9.17 **Securities Lending** – means the act of loaning a bond, stock or other security for the purpose of generating income by charging the borrower a fee;
- 9.18 **Supranationals** – means institutions owned or established by governments of two or more countries, pursuing specified policy objectives. These institutions can issue bond to fund their projects. Examples : IBRD (International Bank for Reconstruction and Development), IFC (International Finance Corporation).
- 9.19 **Term to maturity** – means remaining term to the day when a debt obligation needs to be repaid.
- 9.20 **Yield** – means earnings generated by an investment (including interest, dividends, increase in price), calculated as percentage of the initial amount invested.

## 10. References and Resources

This Council Policy should be read and applied in conjunction with the following references and resources as updated from time to time. Please note that some of the following documents may not be publicly available.

### 10.1 External references

- Bank Act, 1991
- Municipal Act, 2001, as amended
- Ontario Regulation 438/97 (Eligible Investments and Related Financial Agreements)

### 10.2 References to related bylaws, Council policies, and administrative directives

- [Budget Policy FIN-140](#)
- [Controllership Policy 13.0.1](#)
- [Financing Policy FIN-150](#)

### 10.3 References to related corporate-wide procedures, forms, and resources

- Long-Term Financial Master Plan

**11. Revision History**

Date	Description
2020/06/24	Approved – Replaces the following policies rescinded by resolution CW143-2020/C233-2020 on 2020/06/24: 13.6.0 Investment Policy
2021/04/21	A review was conducted and no changes were recommended to the Policy. Approved by CW197-2021 on April 21, 2021.
2022/05/18	A review was conducted and no changes were recommended to the Policy. Approved by CW38-2022.  The Policy has been updated to the new template. The policy number has been corrected from FIN-200 to FIN-210.
2024/05/20	Next Scheduled Review

**12. Attachments:**

12.1 Schedule A: Reserve Funds Investment Portfolio Guidelines

12.2 Schedule B: Operating Funds Investment Portfolio Guidelines

## Schedule A

RESERVE FUNDS INVESTMENT PORTFOLIO			
Sector / Securities:	Minimum DBRS credit rating <sup>Note 5</sup>	Maximum Credit Exposure	
		Portfolio Limit <sup>Note 1</sup>	Issuer Limit <sup>Note 1</sup>
Government of Canada or Agencies	n/a	100%	n/a
Provincials	n/a	70%	n/a
Municipals	n/a	50%	n/a
OSIFA	n/a	5%	n/a
School Boards	AA(low)	20%	n/a
Schedule I Banks <sup>Note 2</sup>	A(low)	50%	15%
Schedule II Banks <sup>Note 2</sup>	A(low)	20%	10%
Schedule III Banks <sup>Note 2</sup>	A(low)	10%	5%
Supernationals	AAA	5%	n/a
Other Corporations	A	20%	5%
Asset Backed Securities	R-1(High)/AAA	10%	n/a
The One Investment Program <sup>Note 3</sup>	n/a	10%	n/a
US dollar denominated Bond <sup>Note 4</sup>	AA(low)	5%	n/a
Credit Rating:	Maximum Credit Exposure		
AA(low) and above		100%	
A(low)		40%	
BBB		20%	
Term Limitation:			
No more than 50% of the portfolio to hold securities with term to maturity exceeding 10 years.			
Notes:			
<ol style="list-style-type: none"> <li>1. Limit is as a percentage of entire reserve funds investment portfolio</li> <li>2. Includes HISA (High Interest Saving Account), GIC (guaranteed investment certificate) and Bonds</li> <li>3. Cumulative investment in any pooled fund cannot exceed 10% of the fund's asset value</li> <li>4. Only eligible for Schedule I Bank with a term of five (5) years or less</li> <li>5. Ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are acceptable If DBRS rating is not available.</li> </ol>			

## Schedule B

OPERATING FUNDS INVESTMENT PORTFOLIO			
Sector / Securities:	Minimum DBRS credit rating <sup>Note 5</sup>	Maximum Credit Exposure	
		Portfolio Limit <sup>Note 1</sup>	Issuer Limit <sup>Note 1</sup>
Government of Canada or Agencies	n/a	100%	n/a
Provincials	n/a	70%	n/a
Municipals	n/a	50%	n/a
OSIFA	n/a	5%	n/a
School Boards	AA(low)	20%	n/a
Schedule I Banks <sup>Note 2</sup>	R-1(mid)/A(low)	50%	25%
Schedule II Banks <sup>Note 2</sup>	R-1(mid)/A(low)	20%	10%
Schedule III Banks <sup>Note 2</sup>	R-1(mid)/A(low)	10%	5%
Supranationals	AAA	5%	n/a
Other Corporations <sup>Note 3</sup>	R-1(mid)/A	20%	5%
US dollar denominated Bond <sup>Note 4</sup>	AA(low)	5%	n/a
Credit Rating:	Maximum Credit Exposure		
AA(low) and above		100%	
A(low)		40%	
BBB		20%	
Term Limitation:			
No more than 80% of the portfolio to hold securities with term to maturity exceeding 1 year; limit will be calculated based on all instrument types combined (HISA,GIC, T-bills, bonds)			
Notes:			
<ol style="list-style-type: none"> <li>1. Limit is as a percentage of entire operating funds investment portfolio</li> <li>2. Includes HISA (High Interest Saving Account), GIC (guaranteed investment certificate) and Bonds</li> <li>3. Maximum term would be 5 year or less</li> <li>4. Only eligible for Schedule I Bank with a term of five (5) years or less</li> <li>5. Ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are acceptable If DBRS rating is not available.</li> </ol>			