

Policy Title:	Investment Policy
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Category:	Financial
Department:	Corporate Services
Policy Author:	Finance
Approved by:	Council
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1. Intent:

The purpose of the Investment Policy is to set out guiding principles for the management of the Corporation of the Town of Saugeen Shore's surplus funds and investment portfolio.

2. Policy Statement:

The Corporation of the Town of Saugeen Shores strives for the best utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements.

3. Authority

This Policy operates in accordance with the Provisions of the Municipal Act, 2001, S.O. 2001, c. 25 as amended (the "Act") and regulations thereto, including the current O.Reg. 438/97 – Eligible Investments and Related Financial Agreements as amended.

4. Scope

This Investment Policy applies to all investments made on behalf of the Town including, but not limited to, operating funds, reserves and reserve funds, trust funds and any new funds created by the Town unless otherwise specifically exempted. This Policy is not applicable to the Town's investment in business enterprise entities, such as Westario Power.

5. Definitions:

- 5.1 "Diversification" means a process of investing assets among a range of security types by sector, maturity, and quality rating.;
- 5.2 "Investment" means the purchase of a financial product such as stocks, bonds, mutual funds, etc., or other item of value with an expectation of favorable future returns.
- 5.3 "Investment Official" means a person who is authorized by the Council to be responsible for the Town's investment activities.
- 5.4 "Investment Parameters" means factors that define the investment decision-making process and determine the investment performance.
- 5.5 "Liquidity" means a measure of an asset's convertibility to cash.
- 5.6 "ONE Investment Program" means a pooled investment program designed specifically for the municipal and broader Ontario public sector. The program is operated jointly by Local Authority Services and the CHUMS Financing Corporation, wholly owned subsidiaries of the Association of Municipalities of Ontario and the Municipal Finance Officers' Association of Ontario, respectively.

- 5.7 “Prudent Person Standard” means an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.
- 5.8 “Securities” means a security is an exchangeable, negotiable instrument representing financial value. Securities are broadly categorized into debt securities (such as banknotes, bonds, and debentures) and equity securities, e.g., common stocks; and derivative contracts, such as forwards, futures, options, and swaps.
- 5.9 “Yield” means an annual income earned from an investment, expressed usually as a percentage of the money invested. “Procedure” means a document that is approved by the Senior Leadership Team that establishes a way of completing a task through a series of steps that ensure a consistent approach;

6. Policy

6.1 Framework

6.1.1 Investment Objectives

In order of priority, the investment objectives of the Town are:

- a) Compliance with Portfolio Restrictions
- b) Preservation of Principal
- c) Maintenance of Liquidity
- d) Maximization of the Rate of Return

a) Compliance with Portfolio Restrictions

The legal authority to invest funds comes from the Act. All investments acquired shall be in conformity with portfolio restrictions and permissions set out in O. Reg. 438/97 – Eligible Investments and Related Financial Agreements, as amended. The Town shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.

b) Preservation of Principal

Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. This Policy acts to minimize credit risk, i.e. the risk of loss due to the failure of the security issuer or backer, by limiting investments to the safest types of security investments and diversifying the investment portfolio so that potential losses on individual securities will be minimized. The limits imposed by the Province of Ontario in regulation shall act as the limitations on investment types and vehicles for these purposes. Staff shall endeavor to mitigate credit and interest rate risk as follows:

Credit Risk:

- Limiting investments to safer types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Corporation does business;
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
- Setting dollar limits on the size of portfolio investments in asset sectors (fixed income and equities) and in individual credit names.

Interest Rate Risk:

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities or approved liquid investment pools;
- Diversifying longer-term holdings to mitigate effects of interest rate volatility;
- Use of Forward Rate Agreements when appropriate; and

- Investing in shares or equities of Canadian corporations through the ONE Investment Program.

c) Maintenance of Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. All non-equity investments will be interest bearing in mature Equity exposure will be limited to investments in the ONE Investment Program equity funds.

The Town's investment portfolio should be well staggered, with investments of at least 1-10 years. This ladder approach will allow investments to mature at various times and allow the Town the opportunity to build up the portfolio based on market conditions/opportunities. Where known, maturity dates will approximate estimated need for capital funding based on the Town's Asset Management and Capital Investment Plan. Short term investments of terms with less than one year will be used for investment of excess cash and managing the cash flow requirements of daily operations, and the remittance of taxes and development charges to the County and the school boards.

A portion of the portfolio may be placed in the approved local government investment pool (ONE Investment Program) which offers compliance and liquidity.

d) Maximization of Rate of Return

The investment portfolio shall be designed with the goal of maximizing the long-term rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Staff will explore and utilize any eligible investment vehicles in building the Town's investment portfolio.

The investment portfolio will be managed with prudent investment principles, in order to maximize returns within established risk parameters. To take advantage of short-term fluctuations in interest rates, securities may be sold prior to maturity.

With the goal of maximizing the long-term rate of return on its investments, staff may utilize eligible investment vehicles through the ONE Investment Program products.

6.1.2 Standards of Care

a) Prudence

Investments shall be made with judgment and care. Under circumstances then prevailing, prudent persons will exercise their discretion and intelligence in the management of their own affairs, not for speculation, but for investment purposes, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by authorized employees dealing with investment activities shall be the prudent person standard and shall be applied in the context of managing an overall portfolio. Authorized employees acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risks or market price changes.

b) Ethics and Conflict of Interest

Investment officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

c) Delegation of Authority

The Treasurer of the Town shall establish written procedures for the operation of the investment program, consistent with this Investment Policy, ensuring adequate internal controls.

The Treasurer is responsible for the investment of all excess cash not required immediately by the Town and may delegate investment functions, as appropriate, to subordinate staff. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures and policies established by the Town Treasurer.

6.1.3 Safekeeping and Custody

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

The depository shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the depository will also provide statements to the Treasurer for reference purposes or decision-making to change investments, etc., which list all securities held by the Town, the book value of holdings, and the market value as of month-end.

6.1.4 Internal Controls

The Treasurer or delegate shall establish an annual process of independent review by the Town's auditor. This review will provide assurance of compliance with governing legislation, the Investment Policy and procedures established by the Treasurer.

6.1.5 Investment Parameters

a) Suitable and Authorized Investments

The Town may invest in certain securities as set out by Ontario Regulation 438/97 to the Municipal Act 2001 as amended from time to time. The Trustee Act regulates investment of trust funds. However, in keeping with a primary objective of the Town's Investment Policy, namely the preservation of capital, permissible investments will be restricted to those of high credit quality and reasonable liquidity. Consequently, emphasis is placed on securities offered by or unconditionally guaranteed by the Government of Canada, a Province of Canada, or a Schedule I Bank and the ONE Investment Program. Securities from Schedule II Banks, Loan or Trust Corporations and Credit Unions are also allowed provided they have a minimum credit rating of A (low) and any individual issuer does not make up greater than 5% of the overall portfolio.

b) Diversification

The Town shall diversify its investments to the best of its ability based on the type of funds invested and the cashflow needs of those funds. Diversification can be by type of investment, number of institutions invested in and length of maturity.

c) Term of Investment

To the extent possible, the Town shall attempt to match its investments with anticipated cashflow requirements. Deviation from this course of action is subject to the discretion of the Treasurer.

6.1.6 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cashflow needs. Portfolio performance should be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio.

6.1.7 Reporting

The Treasurer shall submit a report to Council on investment activities and returns annually, including but not limited to the following:

- List of individual securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity;
- Average weighted yield to maturity on investments as compared to applicable benchmarks;
- Percentage of total portfolio which each type of investment represents;
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments made were in line with the investment policies and goals adopted by the Town; and
- Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

6.2 **Development and Review**

6.2.1 Implementation:

It is the responsibility of the Treasurer to ensure that investments are made in adherence to this Policy and is responsible for reporting to Council on such investments consistent with this Policy.

6.2.2 Review

The Investment Policy is to be reviewed every five years by the Treasurer and changes, if required, approved by Council.

6.3 **Attachments:**

1. None