

Category: FINANCE

Subject: Investment Policy

Purpose

The City of Penticton Investment Policy will govern the City's investment program, which seeks to optimize risk-adjusted returns for the City's investment portfolio. The City of Penticton will invest its funds in a manner that will provide for the optimal blend of security and risk-adjusted returns, while meeting current and future cash flow demands and conforming to all statutory requirements.

Scope

The City of Penticton Investment Policy applies to all investment activities involving the assets of the City which are suitable for investment with due consideration of cash flow demands.

Policy Statement

1. Objectives

The objectives of the investment program, in order of importance, are: adherence to statutory requirements, principal protection, liquidity, and return on investment.

1.1 Statutory Requirements

Investment guidelines for municipal funds are provided in Section 183 of the *Community Charter*. This section states "a municipality may invest money that is not immediately required in one or more of the following:

- a. Securities of the Municipal Finance Authority;
- b. Pooled investment funds under section 16 of the *Municipal Finance Authority Act*;
- c. Securities of Canada or of a province;
- d. Securities guaranteed for principal and interest by Canada or by a province;
- e. Securities of a municipality, regional district or greater board;
- f. Investments guaranteed by a chartered bank;
- g. Deposits in a savings institution, or non-equity or membership shares of a credit union;
- h. Other investments specifically authorized under this or another act."

1.2 Principal Protection

Investments shall be selected in a manner that seeks to ensure the preservation of capital. It is central to this objective that a prospective investment issuer's creditworthiness be considered, and furthermore monitored if an investment is made. Secondly, portfolio diversification must be leveraged, when possible, to limit concentration and other associated risks and provide a greater base of assets to offset potential losses. Identifying, monitoring, and adjusting for additional and foreseeable standard market risks is prudent and necessary for the investment program.

1.3 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and reasonably anticipated cash flow requirements. This will be accomplished by selecting maturity dates that correspond to cash flow requirements and by choosing investments where the principal amount is easily redeemable and that have an active secondary market.

1.4 Return on Investment (ROI)

The Return on Investment (ROI) shall be maximized in the context of the requirements to preserve capital and manage liquidity while adhering to the investment constraints of the *Community Charter* and this Policy. It is prudent to review investment performance on a regular basis, and this may be achieved through considering returns against a benchmark portfolio. Overall, it is the aim to maximize risk-adjusted returns.

2. Standard of Care

2.1 Prudence

Investments shall be made with professional judgement and care with a significant level of due diligence. The objectives of meeting statutory requirements, principal protection, liquidity management, and risk-adjusted returns are integral to the successful stewardship of the City's investment portfolio. Speculative activities are prohibited. Staff must be aware of foreseeable risks, trends and fluctuations in the market that may affect the investment portfolio. When comparing like investments, preference will be given to securities that have 100% deposit insurance, for principal and interest and are guaranteed by a chartered bank or by Canada or British Columbia.

2.2 Ethics and Conflict of Interest

Council members and Staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or may impair their ability to make impartial decisions. Any staff potential conflicts of interest must be disclosed to management and any council member conflict must be addressed in accordance with the requirements of the *Community Charter* and will be considered on a case-by-case basis.

2.3 Delegation of Authority

Authority to manage the City of Penticton's investment program is granted to the Director of Finance and Administration (DFA) and is derived from section 149 the *Community Charter*.

Authorized investments are outlined in section 183 of the *Community Charter* and are further constrained by this Policy.

The DFA has statutory responsibility for investing municipal funds in authorized investments but may not sub delegate this responsibility.

The DFA works with other members in the Finance Department on certain aspects of the management of the City of Penticton's investment portfolio to other members in the Finance department. Responsibilities have been allocated as follows:

DFA Responsibilities

- Review the investment portfolio's performance on a regular basis and provide, or have delegate provide, a report to City Council on an annual basis.
- Select investment dealers and institutions (the "Brokers") to assist in meeting performance objectives for the investment portfolio.

Manager of Finance Responsibilities

- Track and calculate the rates of return on the entire investment portfolio.
- Approve the monthly reconciliation of investment accounts.

Financial Planning and Budget Specialist Responsibilities

- Select specific investments for the investment portfolio.
- Ensure that the funds available are sufficient to cover the disbursements expected to be paid.
- Manage the securities held by the investment program in accordance with this Policy and applicable legislation.
- Throughout the year, assess the investment program to ensure that it is meeting the objectives of this Policy.

3. Authorized Investments

Only investments denominated in Canadian Dollars or, in limited cases, US Dollars, that belongs to a classification of securities detailed in Section 183 of the *Community Charter* will be approved. See Appendix B for details of these approved classifications.

3.1 Portfolio Limitations

The tables in Appendix B (Portfolio Limits) outline the limitations imposed by this Policy on the universe of investments available to the City of Penticton. The portfolio constraints, targeting credit ratings and exposure to assets classes, rank equal and are to be managed concurrently.

3.2 Credit Ratings

Credit ratings shall be obtained from "Recognized Ratings Agencies" as defined in the Credit Rating Equivalency Chart as provided in Appendix A.

3.3 Adherence to Limits

Total securities, or a single security shall not normally exceed the limits outlined in Appendix B. At times, market and operational fluctuations may cause aggregate holdings of a single entity to exceed applicable thresholds, the City of Penticton is not obliged to sell these securities immediately, to remain in compliance with this Policy. Rather, the portfolio must be rebalanced when deemed appropriate.

3.4 Split Ratings

If an issuer or security is rated by more than one Recognized Ratings Agency, the following methodology shall apply:

- If two Agencies rate a security, use the lower of the two ratings;
- If three Agencies rate a security, use the most common;
- If all three Agencies disagree, use the middle rating; and
- If four Agencies disagree, use the average of all four ratings.

3.5 Unrated Securities

If an authorized investment per section 183 of the *Community Charter* is unrated and an internal credit rating has not been determined, it shall be rated as BBB for the purposes of determining adherence to this Policy.

3.6 Unlisted Investments

Investment opportunities not expressly outlined in this Policy, but compliant with applicable legislation may be brought forward by the DFA to the Chief Administration Officer (CAO). If deemed appropriate by CAO, the DFA or delegate may proceed with the investment.

4. Investment Parameters

4.1 Diversification

To reduce the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalents in all funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the DFA or delegate.

4.2 Maturity

To the extent possible, the City of Penticton shall attempt to match the maturity of its investments with anticipated cash flow requirements. Due to the imprecise nature of forecasting cash flow needs, a portion of the investment portfolio shall be continuously invested in short term securities. Investments in long-term securities that may be less-liquid requires certainty from the DFA or delegate that those funds will not be needed until after those long term securities mature.

Long-term Investment of Funds Not Needed Within 10 Years

Matching long-term investments with future liabilities is a recognized investment and asset management best practice. If applicable, the City may designate a portion of its reserves as “long-term: 10-years+”, and the following exceptions to this Policy apply to those funds:

- The City may acquire *Community Charter* Section 183 fixed income securities with terms equal to or greater than 10 years, conditional on the security having a minimum “A” rating from a Recognized Rating Agency; or
- Any “long investment horizon” MFA Pooled Investment Fund created specifically for investing long-term reserves.

The City recognizes while the long-term investment options are expected to earn a higher return over the long term, it can lead to volatile investment results in the short to medium term due to increased interest rate and credit risk, or the inherent higher volatility of equity returns. As such, the City’s intent is to hold long-term investments to maturity and in the case of perpetual Funds (Cemetery), it is the City’s intent to hold these investments for 10 years or longer – in alignment with, but redeemed prior to future obligations.

5. Competitive Rates

When possible, the City of Penticton will obtain current rates for the purchase of selected investments to ensure the most cost effective alternative is selected. However, due to the time-sensitive nature of the marketplace, immediate action may be taken. Under such circumstances, market data may be used to substantiate the action taken.

6. Safekeeping and Custody

6.1 Delivery vs. Payment, Safekeeping

All securities purchased by the City of Penticton shall be held in the name of the City of Penticton. All security transactions shall be conducted on a delivery versus payment basis. The DFA or delegate must be satisfied that the security is rightfully in possession of the City of Penticton or by a custodial service.

6.2 Internal Controls

The City of Penticton has developed the following internal controls in order to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties:

- The DFA or delegate is authorized to obtain a reasonable number of quotes prior to reinvesting funds.
- All cash management transactions are recorded, and interest earnings distributed to the various funds, as the case may be, in accordance with City policies and generally accepted accounting principles.
- The DFA must approve all account openings with new financial institutions or brokerages.
- The Manager of Finance, or delegate, must approve any fund transfers between financial institutions or brokerages with which the City has an existing account. All transfers require dual authorization.
- All investments should be confirmed via email by the person initiating the investment.
- Emailed instructions regarding transfers of funds, including for investments, must be verified through direct phone or in-person contact with the party providing the instructions. If the instructions appear to come from a person, the Manager of Finance should contact the individual by using the original phone number in the file. Even if the instructions purport to come from a bank, a law firm, or another government, the Manager should call to confirm that the transfer instructions are legitimate using the number on the City file.
- All investment accounts are reconciled monthly by the City's Accounting department and are reviewed by the Manager of Finance.
- Reinvestments within financial institutions can be carried out by members of the Finance department as directed by the DFA.
- Internal controls must contain the following elements: segregation of duties, authorization controls, reconciliation controls, and IT general and security controls.
- The DFA must review risk profile annually and update internal controls accordingly, in response to recommendations of an investment risk monitoring team. As well, the DFA must review the internal controls as needed including during periodical review of this Policy or when amendments are made to the internal controls.

7. Policy Review

This Policy shall be reviewed periodically on an "as needed basis", by the DFA or delegate to ensure it meets current regulatory requirements and industry best practices.

8. Reporting

During Council's annual review of the City's Financial Statements, the DFA or delegate shall include in their report to Council, at a minimum, the current state of the investment portfolio.

Attachments

Appendix A – Credit Rating Equivalency Chart

Appendix B – Portfolio Limits

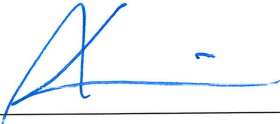
Appendix C – General Investment Glossary

Related Policies and Legislation

- Council Policy - Year End Surplus Policy (dated February 15, 2022 Resolution No. 37/2022);
- Council Policy - Risk Management Policy (dated July 2, 2019 Resolution No. 328/2019);
- Council Policy - Financial Management Policy (dated July 3, 2018 Resolution No. 314/2018);
- "Officers and Delegation of Authority Bylaw No. 2018-75" and any amendments.

Approval History			
Previous revisions/replaces: N/A			
Approved by Council on:	May 2, 2023	Resolution No.:	181/2023

Certified Correct:



Angie Collison, Corporate Officer

Appendix A: Credit Rating Equivalency Chart

Credit ratings shall be obtained from “Recognized Ratings Agencies” defined as: Moody’s Investors Service (Moody’s), Standard & Poor’s (S&P), Fitch Ratings (Fitch), and DBRS Morningstar (DBRS).

Credit Quality	S&P		Moody's		DBRS		Fitch	
	Long-term	Canadian CP Scale (Short-term)	Long-term	Short-term	Long-term	Short-Term	Long-term	Short-Term
Superior	AAA	A-1 (high)	Aaa	p-1	AAA	R-1 (high)	AAA	F1+
	AA+	A-1 (high)	Aa1	p-1	AA (high)	R-1 (high)	AA+	F1+
	AA	A-1 (high)	Aa2	p-1	AA	R-1 (mid)	AA	F1+
	AA-	A-1 (high)	Aa3	p-1	AA (low)	R-1 (mid)	AA-	F1+
Good	A+	A-1 (mid)	A1	p-1	A (high)	R-1 (low)	A+	F1
	A	A-1 (mid)	A2	p-1	A	R-1 (low)	A	F1
	A-	A-1 (low)	A3	p-2	A (low)	R-1 (low)	A-	F2
Adequate	BBB+	A-1 (low)	Baa1	p-2	BBB (high)	R-2 (high)	BBB+	F2
	BBB	A-2	Baa2	p-2	BBB	R-2 (mid)	BBB	F3
	BBB-	A-3	Baa3	p-3	BBB (low)	R-2 (low), R-3	BBB-	F3
Speculative	BB+	B	Ba1	Not Prime	BB (high)	R-4	BB+	B
	BB	B	Ba2	Not Prime	BB	R-4	BB	B
	BB-	B	Ba3	Not Prime	BB (low)	R-4	BB-	B
Highly Speculative	B+	C	B1	Not Prime	B (high)	R-4	B+	B
	B	C	B2	Not Prime	B	R-5	B	B
	B-	C	B3	Not Prime	B (low)	R-5	B-	B
	CCC	C	Caa	Not Prime	CCC	R-5	CCC	C

Appendix B: Portfolio Limits

Portfolio Limits by Credit Rating

Credit Rating [1]	Maximum % Share of Total Reserves
AA- or higher [short-term rating R-1 (mid) or higher]	100%
A+/A/A- [short-term rating R-1 (low)]	75%
BBB+/BBB/BBB- or Unrated [short-term rating R-2 (high) or lower]	50%

[1] Subject to 3.3.

Portfolio Limits by Asset Type

Asset Type	Maximum % Share of Total Reserves	Maximum Single Entity % of Total Reserves	Maximum Term
MFA Pooled Investment Funds	100% [2]	100% [2]	366 days to 11 years [2]
Federal Government [1]	100%	100%	50 years
Provincial Governments [1]	100%	25%	20 years
Local Governments [1]	50%	10%	5 years
Financial Institutions [1]	75% [5]	10% [3][4]	5 years

[1] Weighted holdings of this type of security within a Pooled Fund does not count towards limit.

[2] Range based on Pooled Fund type: 15% for Mortgage Fund, 25% for Diversified Multi-Asset Class Fund, 100% for all others. Maximum term ranges for Pooled Funds are in reference to the limits imposed on each Fund by MFA for assets each hold. MFA's DMAC Fund can hold assets of any maturity. MFA Pooled Funds may be held in perpetuity by the unitholder.

[3] Doesn't include monies held in the general operating account.

[4] Total investments in securities of a chartered bank, savings institution, or credit union may not exceed 100% of the financial institution's last year-end reported total deposits.

[5] Short-term portfolio funds (cash needed within 1 year) may be 100% held within Financial Institutions, but subject to Single Entity limits. Further, from time-to-time Single Entity limits may be exceeded per 3.3.

Appendix C: General Investment Glossary

Benchmark

A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Section 149 of *Community Charter*

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions: (c) investing municipal funds, until required, in authorized investments. The City recognizes the DFA (previously referred to as the Chief Financial Officer) as having this responsibility.

Diversification

A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

Finance Department

The Finance Department at the City as it relates to positions with authority on investments includes the Director of Finance and Administration (DFA), the Manager of Finance (MOF), and the Financial Planning and Budget Specialist (FPBS).

Fixed Income

Investments that have some safety of principal and a potential for capital gains that typically account for 15% to 70% of a balanced portfolio. Examples include bonds and GICs with maturities greater than one year, strip bonds, mortgage-backed securities, private placements and other debt instruments.

Liquidity

Liquidity is the ease of turning an investment to cash without a substantial loss in value. For example, a savings account is more liquid than real estate.

Long-term security

Long-term investments are any securities that are held for more than 5 years, generally. These can include stocks, bonds, real estate, mutual funds, and exchange-traded funds.

Maturity

The date upon which the principal or stated value of an investment becomes due.

Pooled Fund

A pooled fund is a collection of stocks, bonds or other securities managed by professional portfolio managers with a stated investment goal such as growth, income, or some combination of the two. All investors in a particular fund share in both the expenses and the potential profits of the pooled fund.

Securities

Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

Short-term security

A short-term security are financial investments that can easily be converted to cash, typically within 5 years.

Term Deposits

Deposit instruments most commonly available from chartered banks, requiring a minimum investment at a predetermined rate of interest for a stated term. The interest varies according to the amount invested and term to maturity but is competitive with comparable alternative investments. However, a reduced interest rate will usually apply if funds are withdrawn prior to maturity.