| Rainy River District Social Services Administration Board | **SECTION:** Finance<br>**POLICY TITLE:** Investments |
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## 1. Purpose

1.1. The Rainy River District Social Services Administration Board (RRDSSAB) invests public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Board and conforming to all applicable legislation.

## 2. Definitions

2.1. The following provides a glossary of terms and definitions used in the investment industry. The words and phrases listed below when used in this policy shall have the following meanings ascribed to them:

**"Accrued interest"** is the accumulated interest due on a bond as of the last interest payment made by the issuer.

**"Annuity"** is an arrangement under which periodic payments are made to a person in return for the investment of a lump sum, usually for the purpose of providing retirement income. Each periodic payment received by the annuitant is a portion of the original lump sum, plus interest.

**"Arbitrage"** is taking advantage of different prices in different markets, for example by purchasing an asset for a low price in one market and then selling the asset for a higher price in another market.

**"Asset backed securities"** are fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

**"Average life"** is the average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**"Basis point"** is a unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**"Benchmark portfolio"** is a model portfolio that is developed to provide a standard for measuring a fund manager's risk and return performance, and to reflect an investor's preferred level of risk over a complete market cycle. A benchmark portfolio will typically include individual sector indices as benchmarks for each asset class held within the portfolio.

**"Bid"** is the indicated price at which a buyer is willing to purchase a security or commodity.

**"Bond"** is a debt security issued by such entities as corporations, governments, or their agencies, for example statutory authorities, in return for cash from lenders and investors. A bond holder is a creditor of the issuer and not a shareholder. The issuer of a bond is effectively a borrower, and is required to pay interest to creditors (lenders) throughout the life of the bond.

**"Bond ratings"** is a system for measuring the relative credit-worthiness of bond issues using rating symbols that range from the highest investment quality (least investment risk) to the lowest investment quality (greatest risk).

**"Book value (Purchase price)"** is the value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**"Callable bond"** is a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**"Call price"** is the price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**"Call risk"** is the risk to a bondholder that a bond may be redeemed prior to maturity.

**"Capital market"** is the market for medium- to long-term investments (in other words, investment of one year and over in securities such as shares and bonds), and distinct from the money market, which is for shorter-term investments.

**"CHUMS (Colleges, Hospitals, Universities and Municipalities)"** is the entity which operates One Fund, the Public Sector Group of funds. It is an investment pool in which local governments can invest. CHUMS Financing Corporation is a subsidiary of the Municipal Finance Officers' Association of Ontario recognized in the Ontario Regulations.

**"Collateralization"** is the process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**"Commercial paper"** is an unsecured short-term promissory note issued by corporations, with maturities usually ranging from 2 to 270 days to raise working capital.

**"Convexity"** is a measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**"Coupon rate (Interest rate)"** is the annual rate of interest received by an investor from the issuer of certain types of fixed income securities.

**"Credit quality"** is the measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**"Credit risk"** is the risk that some, or all of the principal and/or interest amount of an investment will be lost because of default by the issuer, securities broker or dealer, or financial institution.

**"Current yield (Current return)"** is a yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**"Discount"** is the amount by which the par value of a security exceeds the price paid for the security. It is the difference between the original offering price of a security and the price to which it may fall in the 'after offering' market

**"Diversification"** is a process of investing assets among a range of security types by sector, maturity, and quality rating. It is the spreading of investment funds among classes of securities in order to distribute and reduce risk 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.

**"Face value"** is ordinarily the amount that the issuer promises to pay at maturity and is generally different from the current market value.

**"Fair value"** is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**"Interest rate risk"** is 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.

**"Inverted yield curve"** is a chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**"Investment policy"** is a concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**"Liquidity"** is a measure of an asset's convertibility to cash.

**"Liquidity risk"** is the risk of not being able to sell an investment prior to maturity in order to obtain needed cash.

**"Local Government Investment Pool (LGIP)"** is an investment by local governments in which their money is pooled as a method for managing local funds.

**"Local Authorities Service Limited (LAS)"** is the entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest. LAS is a subsidiary of the Association of Municipalities of Ontario recognized in the Ontario Regulations.

**"Market risk"** is the risk that the value of a security will rise or decline as a result of changes in market conditions.

**"Mark-to-market"** is the process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**"Market value"** is the current market price of a security.

**"Maturity"** is 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.

**"Money market mutual fund"** is a mutual fund that invests solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances).

**"Net asset value"** is the market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. [(Total assets) - (Liabilities)]/(Number of shares outstanding)

**"Offer (Ask price)"** is an indicated price at which market participants are willing to sell a security or commodity.

**"Par"** is the face value or principal value of a bond, typically $1,000 per bond.

**"Positive yield curve"** is a chart formation that illustrates short-term securities having lower yields than long-term securities.

**"Premium"** is the amount by which the price paid for a security exceeds the security's par value.

**"Prime rate"** is a preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**"Principal"** is the face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

**"Promissory notes"** are documents signed by a borrower promising to repay a loan under agreed-upon terms. It is an agreement to pay or repay a specified sum of money at a stated time or on demand. It is a written and enforceable promise of payment.

**"Reinvestment risk"** is the risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**"Safekeeping"** is the holding of assets (e.g., securities) by a financial institution.

**"Serial bond"** is a bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

**"Sinking fund"** is money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**"Swap"** is the trading one asset for another.

**"Term bond"** is a bond that comprises a large part or all of a particular issue which comes due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

**"Total return"** is the sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, the return on an investment is comprised of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

**"Treasury bills"** are short-term government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**"Treasury notes"** are intermediate government debt securities with maturities of one (1) to ten (10) years and issued in denominations ranging from $1,000 to $1,000,000 or more.

**"Treasury bonds"** are long-term government debt securities with maturities of ten (10) years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is thirty (30) years.

**"Volatility"** is a degree of fluctuation in the price and valuation of securities.

**"Volatility risk rating"** is a rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("AAA" by S&P) to those that are highly sensitive with currently identifiable market volatility risk ("CCC-" by S&P).

**"Weighted average maturity (WAM)"** is the average maturity of all the securities that comprise a portfolio.

**"Yield"** is the current rate of return on an investment security generally expressed as a percentage of the security's current price.

**"Yield-to-call (YTC)"** is the rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**"Yield curve"** is a graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**"Yield-to-maturity"** is the rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**"Zero-coupon securities"** are securities that are issued at a discount and make no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

## 3. Policy

3.1. The RRDSSAB strives for the optimum utilization of its cash resources within statutory limitation and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.

## 4. Scope

4.1. This policy applies to all investments made on behalf of the RRDSSAB including, but not limited to, operating funds, reserves, reserve funds, and any new fund created by the Board unless specifically exempted.

4.2. Except as otherwise indicated by specific fund restrictions, the RRDSSAB will consolidate cash balances from all funds to maximize investment earnings.

4.3. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP).

## 5. Objectives

5.1. The four (4) primary objectives of the investment program, in priority order, shall be:

5.1.1. Adherence to statutory requirements as specified under *paragraph 10. Suitable and Authorized Investments*;

5.1.2. Preservation of capital. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The Director of Finance & Asset Management shall endeavor to mitigate credit risk and interest rate risk;

5.1.2.1. Credit risk can be significantly mitigated by investing in financial instruments rated to meet or exceed minimum legislated requirements as set out in *Ontario Regulation 438/97*, by further limiting the types of investments to a maximum percentage of the total portfolio, and by limiting the amount invested within individual institutions to a maximum percentage of the total portfolio.

5.1.2.2. Interest rate risk can be significantly mitigated by structuring the investment portfolio so securities meet the ongoing cash requirements, both short and long term, reducing the need to sell securities disadvantageously prior to maturity, and reinvestment frequency thereby reducing the effects of interest rate volatility

5.1.3. Maintaining liquidity implies a high degree of marketability and a high level of price stability. The portfolio is structured so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio should be comprised largely of securities with active reliable secondary or retail markets; and

5.1.4. Maximizing rate of return. Investments will be made in order to maximize the annualized rate of return or yield on the portfolio of securities without comprising the objectives listed above. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

## 6. Authority

6.1. The legislative authority for the investment of public funds by the RRDSSAB is in accordance with the provisions of the *Municipal Act* and related regulations.

6.2. Investment activity of municipal funds shall be governed by the *Municipal Act, 2001 (S.O. 2001, c.25).* Section 418 of the Act provides the legislative authority for a municipality to invest surplus funds. A municipality does not have the power to invest under section 418 of the Act in a security other than a security prescribed under the *Ontario Regulation 438/97.*

6.3. The RRDSSAB is not permitted to invest in any security that is expressed or payable in any currency other than Canadian dollars.

## 7. Standards of Care

7.1. Prudence

Investments shall be made with judgment and care, in a prudent manner, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. Staff responsible for the oversight of the investment portfolio as designated by the Board, acting in good faith and within the ordinary course employment as in accordance with this policy and exercising due diligence, shall be indemnified for the losses incurred by the Board due to an individual security's negative credit risk or market price changes

7.2. Ethics and Conflict of Interest

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. Material interests in financial institutions with which they conduct business shall be disclosed. Further, any personal/investment positions that could be related to the performance of the investment portfolio shall be disclosed. Employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Board.

7.3. Delegation of Authority

The Director of Finance & Asset Management is responsible for the prudent investment of the RRDSSAB's portfolio, and for all investment transactions undertaken in accordance with this policy.

7.4. Competitive Selection

The Board may use an Investment Advisor (IA) of a brokerage house associated with a Schedule 1 bank as a portfolio manager. The services of the IA shall be awarded through a competitive process for a specified limited term, in accordance with finance policy *F-5.0: Procurement*.

7.5. Role of the Finance & Audit Committee and Board

The Finance & Audit Committee and the Board shall oversee the implementation of this Investment Policy. As well, any future significant adjustments to the investments portfolio objectives must be recommended by the Finance & Audit Committee and approved by the Board.

## 8. Safekeeping and Custody

8.1. All investments for the Board shall be held for safekeeping in the name of the RRDSSAB by a financial institution approved by the Board. The depository shall issue safe keeping receipt to the Board listing the specific instrument, rate, maturity, and other pertinent information. The depository shall provide monthly reports which list all the securities held by the board, indicating all investment activity, book value of the holdings, market value as of month-end, and income earned on investments.

## 9. Internal Controls

9.1. The Director of Finance & Asset Management shall develop and maintain all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the RRDSSAB's investments are properly managed and adequately protected.

9.2. The Director of Finance & Asset Management shall establish an annual process of independent review by an external auditor. The review will provide internal control by assuring compliance with policy and procedures.

## 10. Suitable and Authorized Investments

10.1. Investments issued or guaranteed by the following institutions will be permitted by this policy, as deemed eligible by *Ontario Regulation 438/97*:

10.1.1. Government of Canada;
10.1.2. Provincial governments of Canada;
10.1.3. Schedule I banks subject to a minimum DBRS of R1 middle or AA. Schedule I banks are set out by Section 14 of the *Bank Act*;

10.1.4. Schedule II banks subject to a minimum DBRS of R1 high or AAA. Schedule II banks are set out by Section 14 of the *Bank Act*;

10.1.5. Municipality, school board or local board as defined by the *Municipal Act* or a conservation authority established under the *Conservation Authorities Act*; and

10.1.6. Bond, debentures, promissory notes or a corporation incorporated under section 142 of the *Electricity Act, 1998*.

## 11. Diversification

11.1. The RRDSSAB shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds.

11.2. Diversification can be by type of investment, number of institutions invested in and length of maturity.

11.3. Investment in a municipal investment pool as allowed by *Ontario Regulation 38/97*, such as the One Investment Program should be considered an appropriate method of investment diversification.

## 12. Investment Parameters

12.1. To the extent possible, the RRDSSAB shall match its investments with anticipated cash flow requirements.

12.2. Unless matched to a specific cash flow, the RRDSSAB will not directly invest in securities maturing more than ten (10) years from the date of purchase.

12.3. Reserve funds and other funds with longer investment horizons may be invested in securities exceeding ten (10) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.

12.4. A minimum of 20% of the portfolio must be invested in securities having a term of under 90 days.

12.5. Investments will be limited to issuers maintaining a minimum credit rating of "R1 Low" by Dominion Bond Rating Service (DBRS), or equivalent and the mix of investments will be limited to holdings in the portfolio as follows:

12.5.1. A minimum of 20% "AAA" (R1 HIGH);

12.5.2. A maximum of 70% "AA" (R1 MIDDLE); and
12.5.3. A maximum of 10% "A" (R1 LOW).

12.6. The RRDSSAB will place investments in those instruments permitted under the *Municipal Act*, and more specifically only those issued or guaranteed by the following institutions or their agencies:

12.6.1. The Government of Canada;
12.6.2. The Provinces of Canada;
12.6.3. Ontario Municipal Governments; and
12.6.4. Schedule "I" and "II" Banks.

12.7. The RRDSSAB will be permitted to take advantage of investments offered by qualified investment brokerage houses, including, but not limited to, RBC Dominion Securities, Wood Gundy Inc., or LAS and CHUMS acting together as the municipality's agent for investing in "ONE – The Public Sector Group of Funds", as circumstances dictate.

## 13. Performance Standards

13.1. The investment portfolio shall be managed in accordance with the parameters specified within this policy. The portfolio should obtain a comparable rate of return during budgetary and economic cycles given the investment risk constraints and cash flow needs of the Board. Short-term investments will be compared to the return on the three-month Government of Canada Treasury Bills. Medium-term investments will be compared to the yield of a three-year Government of Canada bond.

## 14. Reporting

14.1. The Director of Finance & Asset Management shall submit an investment report to the Board at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow the Board to ascertain whether investment activities during the reporting period have conformed to the investment policy.

14.2. The report will include the following:

14.2.1. Listing of individual securities held at the end of the reporting period;

14.2.2. 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 (in accordance with GAAP requirements);

14.2.3. Average weighted yield to maturity on investments as compared to applicable benchmarks;

14.2.4. Listing of investment by maturity;

14.2.5. Percentage of total portfolio which each type of investment represents;

14.2.6. A statement about the performance of the investment portfolio during the period covered by the report;

14.2.7. An estimated ratio of the long-term and short-term securities compared to the total investments and a description of the change, if any, in that proportion since the previous year's report;

14.2.8. A statement by the Director of Finance & Asset Management as to whether or not, in his or her opinion, all investments were made with the investment policies and goals adopted by the Board;

14.2.9. A record of the date each transaction in or disposal of its securities, including a statement of the purchase and sale price of each security; and

14.2.10. Any other information that the Board may require or that, in the opinion of the Director of Finance & Asset Management, should be included.